





**PepsiCo, Inc:** PepsiCo's 10 divisions operate in five business segments: beverages, food products, food service, transportation, and sporting goods. Each division develops its own plans and goals consonant with its operating environment and PepsiCo's corporate objectives.

The corporation's steady growth record is based upon high performance standards, a flexible approach to marketing challenges, and the integrity of its products, people, and business practices. Also, the premium placed on results has helped to make PepsiCo products and services brand leaders in the fields in which they compete. Known around the world, PepsiCo is synonymous with leisure time activity. Its marketing and service divisions, all in growth fields, are synchronized to the popular basics of everyday life.

PepsiCo is now in the strongest financial condition in its history and optimistic about the prospects for expansion and development in all its businesses. In this report, along with an examination of the financial developments of 1978, is a graphic view of social processes affecting business, looking toward the 'eighties, and how PepsiCo fits into a changing world.

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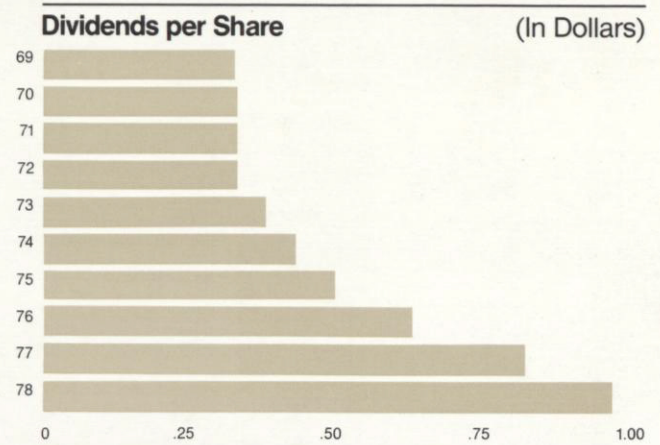
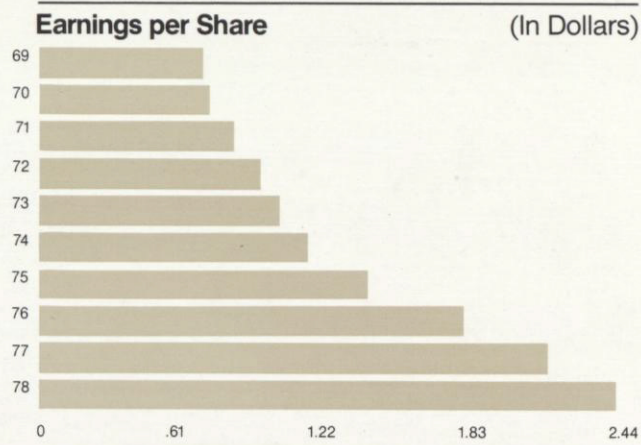
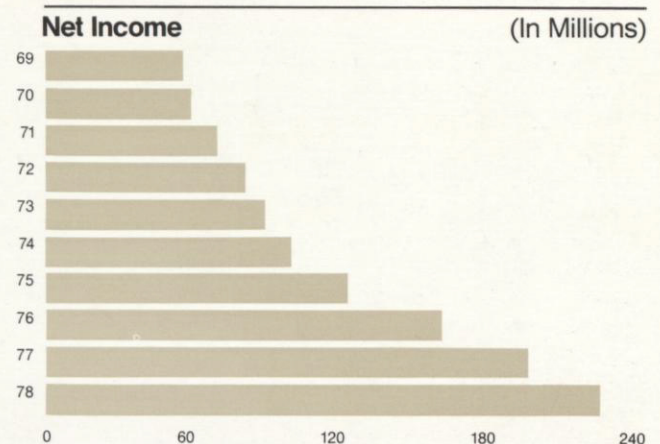
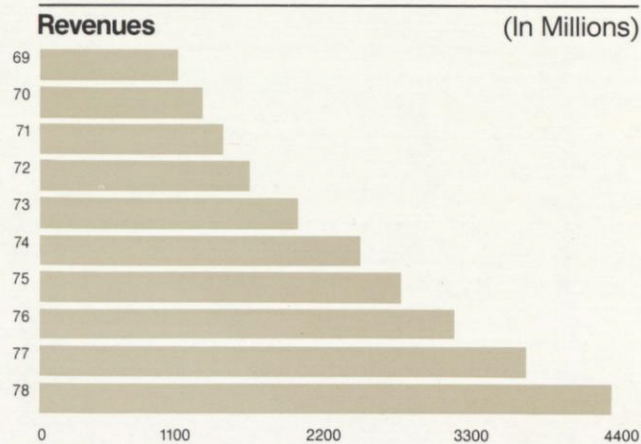
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CLEVELAND PUBLIC LIBRARY  
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	1978	1977	Change
Revenues .....	<b>\$4,300,006,000</b>	\$3,649,291,000	+ 18%
Net income .....	<b>\$225,769,000</b>	\$196,741,000	+ 15%
Net income per share .....	<b>\$2.43</b>	\$2.14	+ 14%
Average shares outstanding .....	<b>92,883,000</b>	92,046,000	+ 1%
Dividends .....	<b>\$88,385,000</b>	\$67,021,000	+ 32%
Plant and equipment expenditures* .....	<b>\$347,473,000</b>	\$253,596,000	+ 37%
Long-term debt .....	<b>\$318,215,000</b>	\$315,821,000	+ 1%
Capital lease obligations .....	<b>\$160,919,000</b>	\$151,987,000	+ 6%
Shareholders' equity .....	<b>\$1,167,659,000</b>	\$1,003,401,000	+ 16%

\*Excludes capital leases.



Bid Corp. File

The following are among the trademarks owned by PepsiCo and its subsidiaries and affiliates in the United States and numerous countries throughout the world: "Pepsi-Cola," "Pepsi," "Pepsi Light," "Diet Pepsi-Cola," "Diet Pepsi," "Mountain Dew," "Aspen," "Mirinda," "Fritos," "Lay's," "Doritos," "Ruffles," "Chee • tos," "Rold Gold," "Sabritas," "Frito-Lay's," "Go-B-Tweens," "Fantastix," "Tostitos," "Wilson 1200," "Wilson Staff," "ProStaff," "Ultra / pws," "Advantage," "T5000," "Reflex," "Hotshot," "northAmerican," "Lee Way," "Pizza Hut," "SuperStyle," "Applegate's Landing," "Taco Bell."



Again we report an excellent year for PepsiCo. For the first time our sales exceeded \$4 billion and our earnings were a record \$226 million. The final figures came in just about as planned; sales were up 18 percent, net income up 15 percent, and earnings per share gained 14 percent. Thus, by any measure, 1978 was another excellent year for PepsiCo, especially after the unusually high gains of 1975-77.

These record results were achieved in the face of many challenges relating to rapid inflation and softening of demand in several of our businesses. Thus, we think the managers of our base businesses can take particular satisfaction in their ability to achieve superior results. The outstanding performance of our soft drink and snack food companies enabled us to overcome shortfalls in other areas and still achieve these records. Looking at underlying market trends and performance measurements, some of our best results occurred in the final quarter of 1978; we have opened the new year with confidence that our trends will continue to be favorable in 1979.

Last year, we outlined some strategies that supported our growth in the 'seventies and have been laying foundations for progress during the coming decade. One major strategy—building for the future by heavy investment in capital and management resources—has been of particular benefit to our international businesses. The major investments made over the last few years in the overseas soft drink and snack food segments are now beginning to pay off. Following a comparable rise in 1977, foreign soft drink volume grew 15 percent last year, while margins and profits advanced sharply. Our foreign snack food business also reported dramatic increases in volumes, revenues, and profits.

Domestic operations, though, felt the impact of inflation. After several years of very moderate cost increases, prices of major raw materials and unit labor costs began to escalate in late 1977 and throughout 1978. Naturally, prices of our products and services had to be raised, but the profit margin on our domestic businesses still declined somewhat. In addition, higher prices encountered customer resistance in some areas, particularly in the food service industry. We are in compliance with government wage and price guidelines and do not expect them to affect PepsiCo adversely.

Our domestic soft drink and snack food businesses continued to gain a larger share of their markets with volume growth far exceeding that of the rest of their industries. Also, essential price increases in snack foods taken late in 1977 brought about a recovery in margin in 1978 from the reduced level in the prior year. Thus, both of these core businesses were important contributors to the corporation's progress in 1978.

PepsiCo expanded its food service business with the acquisition of Taco Bell in June 1978. Continuing its pattern of steady growth, Taco Bell added 122 stores to reach 971 by the end of 1978. Increases in sales per store also contributed to the substantial growth in that company's overall sales and profits.

Pizza Hut, on the other hand, encountered stiff competition and customer resistance to price increases, slowing growth in sales per store. Expansion of its system continued to be strong, with the number of restaurants up 15 percent to total 3,710. Nevertheless, added costs for product improvement and intensified market support brought narrower margins and led to a decline in Pizza Hut's profits for 1978. The product and marketing programs initiated in the fall of 1978 have led to an improved trend in real volume at Pizza Hut and further improvement is expected as additional programs take hold in 1979. We continue to be very optimistic about the future for both Pizza Hut and Taco Bell, who are the undisputed leaders in the fastest growing segments of the restaurant industry—pizza and Mexican food.

Our transportation operations had a fine year. Healthy revenue growth and strong profit gains in the north American Van Lines and PepsiCo Building Systems portions of the business were primary factors in the general growth picture of this group. Wilson Sporting Goods, however, tackled a difficult industry situation marked by oversupply, sluggish demand, and resulting intensive discounting. Although Wilson retained its leadership in the marketplace, with only a slight decline in sales, major one-time provisions for bad debts and inventory losses turned a modest profit into a net loss for the year.

Closing out 1978, with its passage of crosscurrents and challenges, the overall results demonstrate once more PepsiCo's remarkable strength and resilience. The key measure of our economic health, return on assets employed, reached a record high level of 14.7 percent—and the return on average shareholders' equity was a favorable 20.8 percent. The ratio of total debt to total capital, an important indicator of financial strength, improved from 34.0 percent to 31.5 percent.

Last spring, the PepsiCo Board of Directors increased the dividend to an annual rate of \$1.00. This is exactly three times the rate in effect in 1972, representing a growth rate of 20 percent per year over the last six years.

Our rapid growth necessitates expansion of production and distribution facilities in many areas. Our capital





*Chairman of the Board and Chief Executive Officer Donald M. Kendall, at right, with President and Chief Operating Officer Andrell E. Pearson.*



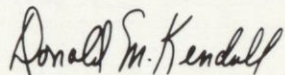
expenditures have risen, therefore, from the \$254 million level in 1977 to \$347 million in 1978 with Taco Bell included. We expect capital spending to approximate \$435 million in 1979.

This year's increase in capital investment is aimed principally at capacity expansion for the domestic and foreign snack food businesses, and the foreign soft drink business. The combination of a healthy cash flow from operations and some external financing is expected to continue to fuel this growth while maintaining our strong capital structure. More opportunity for new product development is going to be one benefit of this increased manufacturing capacity.

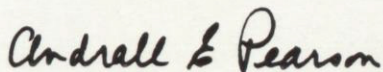
PepsiCo is dedicated to the effective use of research and development to assure the continuous availability of safe, high quality, tasty, and attractive products to meet the needs and desires of our customers. Expanded research and development activity at Frito-Lay has generated new processes, materials, and products that have contributed immensely to the outstanding record of PepsiCo's snack food business. At this time with snack food capacity limited, we are just beginning to capitalize on those opportunities available from new product development. The new PepsiCo Technical Center in Mount Pleasant, New York will open this year, greatly enhancing our activities in beverage research, quality control, and engineering.

As we look ahead at the uncertainties and difficulties facing the United States and the world, we believe PepsiCo is stronger than ever and fully capable of meeting future challenges and opportunities. We have significant and improving financial strength. We have established market leadership or a strong second position in each of our major fields. And we have the management talent and organizational processes in place to run a large international business successfully.

As PepsiCo completes a decade of unprecedented accomplishment, we look to the 'eighties with confidence.

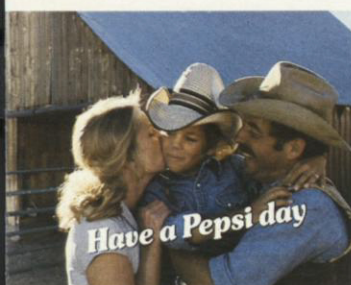
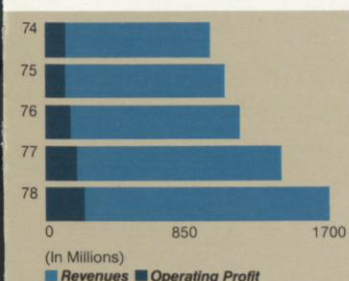


Donald M. Kendall  
Chairman of the Board and Chief Executive Officer



Andrell E. Pearson  
President and Chief Operating Officer





"New Pony" is one of five 1978-79 "Have A Pepsi Day" award-winning television commercials.



Sugar-Free Pepsi Light will be available nationwide in 1979. In 1978, Mountain Dew was the fastest growing major soft drink in the United States...for the third straight year.

**Beverages. Pepsi-Cola Company:** For the third straight year, national sales gains for the family of Pepsi-Cola Company soft drink brands achieved a high growth rate exceeding that of the rest of the industry. Aggressive marketing and advertising campaigns from the Pepsi-Cola Company and strong executional support from the more than 400 Pepsi-Cola bottlers were major factors in this continuing strong performance. Volume and market share improved again in 1978 with case sales rising strongly over the year before, more than doubling the estimated industry growth rate of about four percent.

The Pepsi-Cola Company is now organized into four distinct operating divisions. They are: Franchise, Bottling, Food Service, and Diversified Packages.

Pepsi-Cola Company's Franchise business had another outstanding year. Led by its major brand, Pepsi-Cola, emphasis continued on the long-standing strategy of superior in-store merchandising, resulting in further improvement in the company's margin of leadership in food stores. The "Have A Pepsi Day" campaign went into its third year in 1978. Emphasizing fun and good times, the advertisements identify Pepsi with the exuberance of leisure times and the active, high-spirited American nature. An independent survey recently revealed that the "Have A Pepsi Day" commercials are the most popular on television.

Early in the year, Diet Pepsi became the best-selling diet beverage in food stores, commensurate with the spreading product awareness fostered by its advertising campaign. The theme "You're Drinking Diet Pepsi And It Shows" ties into America's interest in physical fitness and good appearance. Similar to the highly successful Diet Pepsi Run America Run footracing program, which is aimed at adult participation, other Pepsi-Cola Company products have a strong association with youth sports, such as the Pepsi-Cola/NBA Hotshot basketball program and local street tennis events.

Sugar-Free Pepsi Light is being introduced nationwide in 1979, culminating months of research and market studies. The formula for the new Sugar-Free brand is expected to improve sales performance with only nominal absorption of sales from Pepsi-Cola and Diet Pepsi.

Mountain Dew continued for its third year as the fastest growing major soft drink in the United States. This spectacular performance has now placed Pepsi-Cola Company as the only one with three products among the eight top-selling soft drinks in the nation's food stores, emphasizing Mountain Dew's major growth potential. The product's identification with outdoor life was bolstered by its new theme "Reach For The Sun—Reach For Mountain Dew."

Another one of Pepsi-Cola Company's new proprietary products, Aspen, a light apple-flavored soft drink, is exceeding expectations in a large demonstration market in Los Angeles. Compatible in spirit with Mountain Dew, Aspen has reduced carbonation and lowered sugar content. With the theme "The New Soft Drink With Just A Snap Of Apple," the Aspen introduction of 1978 was accompanied by the strongest promotional support offered any new soft drink product in recent years.

Two major company programs, the two-liter plastic bottle and the "Pepsi Challenge," made significant contributions to increasing volume in 1978. Introduced in the spring of 1976, two-liter plastic bottles are now available to 95 percent of the United States population and are a key factor in increasing volume through family size packages. Duplicating this achievement, Pepsi-Cola also pioneered the introduction of the green two-liter bottle for its green bottle products, Mountain Dew and Teem. The "Pepsi Challenge" campaign, a well-known selective market strategy to increase awareness and sales of Pepsi-Cola, triggered significant sales increases in all markets in which it was employed.

The company-owned Bottling operations had a very good year in 1978, performing beyond expectations and raising its sales growth rate above the average of all other bottlers. This was accomplished in spite of the negative impact of having to convert completely, during the year, to returnable containers in Michigan because of recent mandatory deposit legislation.

Early in 1978, Pepsi-Cola Company established a separate Food Service division with its own sales and marketing organization. In its first full year of operation, this group has nearly doubled the company's rate of growth in Pepsi-Cola sales to the food service business. In addition to this outstanding accomplishment, Food Service management has accelerated expansion of other Pepsi-Cola products such as Diet Pepsi and Mountain Dew.

The growth trend in canned soft drink sales surged upward again in 1978. With can volume now accounting for a major share of all Pepsi-Cola package sales, Pepsi-Cola's Diversified Packages division has initiated appropriate supply arrangements and manufactures cans in certain key markets.

Finally, let it be said that we have a deep commitment to the integrity of our products, including those that





Bill Rodgers beats Randy Thomas across the finish line to win the Diet Pepsi 10,000 Meter National AAU Road Racing Championship.

contain saccharin. We believe that scientific evidence supports the safety of saccharin and are hopeful that the federal government will continue to permit its use.

**PepsiCo International:** Surpassing the one billion mark for case sales, PepsiCo International closed out 1978 with volume 15 percent greater than the year before. With the recent openings in Brunei, Liberia, and Somalia, Pepsi-Cola is now sold in 142 countries and territories.

The International Division's basic business is run through its two operating groups: Franchise and United Beverages International (UBI). The Franchise operation functions similarly to that of Pepsi-Cola in the United States, selling soft drink concentrate to overseas bottlers, while UBI is the way we designate our overseas company-owned bottling plants. Of the more than 500 bottling operations in 126 countries, 34 are operated by UBI in Mexico, Canada, the Philippines, Brazil, Germany, Spain, South Africa, Uruguay, and Puerto Rico.

Prior planning and aggressive marketing strategies paid off in 1978. These included investment programs in which plant and distribution facilities were expanded in key, developing markets. An important part of successful soft drink marketing abroad often consists of simply making sufficient high-quality product available and expanding the number of outlets that stock it. Mexico, where over a third of our sales is by company-owned bottling plants, is a good example. It is PepsiCo's largest soft drink market outside the U.S. Investment in plant, trucks, glass, bottling equipment, and vending machines triggered a major sales increase, making that country the first outside the United States to exceed 200 million cases.

On the other hand, marketing and promotion were more important in countries like Canada, where an extension of the "Pepsi Challenge" coupled with more aggressive promotion and merchandising increased our share of the market significantly. The brands Tropicana Sud (Mountain Dew), launched in Quebec, and Aspen, launched in Vancouver, met with encouraging early results.

International Franchise operations had an outstanding year both in terms of volume and profit with case sales well ahead of 1977. Operating profits increased sharply, exceeding expectations.

The North Latin America area improved in spite of economic difficulties in Peru and industry price increases in Colombia. Expanded production and the introduction of new flavors indicate even better performance in 1979. South Latin America advanced overall due to especially strong results in Brazil, Chile, and Paraguay.

Europe's growth was led by Spain, where our company recently took over the Barcelona franchise, the second most important market in the country. Revitalizing the sales organization and introducing cans for the first time in the Spanish soft drink market yielded spectacular first-year results—and sales more than doubled in Barcelona.

The Far East reported a major increase in PepsiCo's market share with case sales outperforming industry growth by a wide margin. This gain was mainly due to new bottling lines and to the introduction of larger packages in Thailand, Malaysia, and Singapore, while Australian and Korean sales gains reflected the effect of new plant openings by bottlers.

Throughout Africa, soft drink demand exceeds supply. As a result, added capacity and widened product availability sharply increased case sales. During 1978, African revenue advances were led by Nigeria where sales more than doubled. A highlight was the introduction of Pepsi-Cola into two new countries, Liberia and Somalia. Three new plants and three new lines were added in 1978, with major additions also scheduled for 1979.

The Middle East is another area where production is short of demand. Increased sales there resulted from the first effects of bottler capacity expansion programs and the unsnarling of initial operational and distributive entanglements. New bottling lines were installed in Riyadh and Al Khobar, Saudi Arabia; a new plant was opened in Amara, Iraq; and another capacity expansion was completed at Fez in Morocco. Further production capacity is expected to be in place in key markets by the end of 1979.

In the Soviet Union, the third Pepsi-Cola plant opened in Tallinn, the Baltic seaport capital of Estonia. The plant will produce 72 million bottles of soft drinks a year for Estonia, Latvia, and Lithuania. In Leningrad, a fourth plant is now ready to begin full-scale production. Six more plants are under construction in the Soviet Union and will open by the end of 1980, giving Pepsi-Cola a distribution area spanning several time zones.

The successful year for UBI reflects a management reorganization that placed more experienced people into our far-flung bottling operations. UBI also invested heavily in plants, trucks, glass, and, as the PepsiCo International flagship, set the merchandising pace in important markets.

A 1978 case sales increase of 29 percent indicates successful implementation of key UBI programs directed against the "basics" of the business. The Philippines is a good example. UBI's stake there with eleven plants makes



African and Middle Eastern soft drink case sales increased dramatically in 1978.

By the end of 1980, there will be 10 Pepsi-Cola plants in the Soviet Union.



the Philippines the major company-owned bottling operation outside the U.S. (and Pepsi-Cola is the leading soft drink). Substantial investment in distribution—trucks and coolers, helped produce a major increase in case sales in a country noted for its contrast of sophisticated high-speed bottling lines serviced by, in some cases, ox cart delivery.



**Food Products. Domestic Snack Foods:** Landmark revenues of over one billion dollars were recorded by Frito-Lay in 1978 with a substantial increase in sales as compared with 1977. It was also the most successful year in Frito-Lay's history in terms of both volume and income.

Skilled marketing of quality products was the leverage for accelerated sales growth in 1978. New advertising campaigns in support of Fritos brand corn chips and Chee•tos brand cheese flavored snacks, and increased advertising for Doritos brand tortilla chips and Ruffles brand potato chips, aided sales for these popular Frito-Lay products.

Frito-Lay initiated rollouts of four successfully test marketed products: Fantastix, a crunchy french fry shaped snack in tangy green onion and zesty cheese flavors; nacho cheese flavored Chee•tos; sour cream and onion Doritos; and barbecue flavored Ruffles. Early results were encouraging with all items generating volume beyond expectations.

In addition, Tostitos, a recently developed snack of crispy round tortilla chips, promises to be a major new Frito-Lay brand. Available in both traditional and nacho cheese flavors, the test market success of Tostitos has sparked a major national expansion during 1979 and 1980.

Frito-Lay Go-B-Tweens, a line of nuts, meats, crackers, and cakes sold in small packages for immediate consumption, are proving to be an important new element in the Frito-Lay success story.

The backbone of the Frito-Lay business is the excellence of its store-door delivery system. More than 7,200 salespersons service hundreds of thousands of accounts, arrange displays, and employ proven merchandising techniques that assist the consumer and reduce operating costs for the trade. The sales force, working to deliver "guaranteed fresh" products, averages 700,000 calls a week just to meet the heavy demand for Frito-Lay products.

In response, Frito-Lay has undertaken a vigorous expansion program. In 1979, the sales organization will be enlarging rapidly to keep pace with growth expectations. New manufacturing systems are being designed with increased productivity in mind, using techniques developed during the improvement and modernization of older plants. Automated cooking and packaging machinery is being installed to handle the complex processes of manufacturing. Inventory and product ordering systems, interfaced with Frito-Lay's central computer in Dallas, help regulate supply and govern the logistical intricacies of delivering the large variety of fresh products to the store shelves.

Construction is underway for three multi-product plants to be located in Killingly, Connecticut; Charlotte, North Carolina; and Frankfort, Indiana.

In its 38-plant shipping operation, Frito-Lay uses a sophisticated computer-controlled vehicle scheduling procedure to coordinate the movements of its over-the-road highway tractors and trailers. The system, now in operation after three years of development, saves millions of dollars a year through avoidance of unnecessary trips and better backhauls.

In the interest of producing quality products efficiently, and passing on the most savings possible to the consumer, Frito-Lay's Research and Development Department has introduced programs that benefit the entire food industry. For example, improving the refining of cooking oils to eliminate preservatives, researching flavor innovations, environmental protection engineering, and cost control improvements on packaging are all part of the continuing effort of Frito-Lay's R&D program.

The Division enters 1979 with the necessary momentum to record another banner year. In addition to Tostitos, other new products are planned for expansion and test marketing. Strong marketing support behind major products, the spectacular success of Go-B-Tweens, major programs capitalizing on the rapidly growing food service market, and Frito-Lay's dedication to research and development all provide a solid foundation for continuation of Frito-Lay's impressive growth record.



Research and development ensures the superior quality of Frito-Lay's products.



Reaction to the 1978 rollout of our new products has exceeded expectations.





In Mexico, Sabritas snacks and Pepsi are a popular combination. Sabritas 1979 plans include expanded manufacturing capacity and even broader distribution.

**International Snack Foods:** PepsiCo Foods International (PFI) concluded 1978 with a strong sales increase of 29 percent and operating profits trebling. This performance was primarily based on exceptional sales growth in Mexico, Spain, and Brazil.

PFI's Sabritas subsidiary is the leading marketer of snack foods in Mexico where the company maintained a solid grip on its position despite aggressive competition. A new barbeque potato chip was launched and proved to be an instant winner. Meanwhile, Sabritas management concluded negotiations with the government for permits to expand manufacturing and distribution capacity.

With more political stability in Spain, and consequent improved tourist income, inflation decreased in 1978, slowing the erosion of the peseta to 15 percent and boosting dollar sales and profits for PFI. Local purchasing power—and the demand for snacks—also increased while the company began the successful rollout of a new cheese puff. Local management also improved the price/value relationship of its product line and significantly increased the sales productivity of its route delivery system. These actions should result in significant real volume gains during 1979 and beyond.

Brazilian sales grew almost 50 percent as PFI's performance tracked along with that nation's economic vitality. A new onion flavor snack was successfully introduced, encouraging the company to continue to expand its product line along with the local market. To accommodate this anticipated growth, PFI is planning to begin the construction of a new manufacturing facility in 1979, keeping its capacity in line with increasing demand.

In Puerto Rico, PFI improved route productivity and substituted higher margin self-manufactured products for those imported from the United States mainland. The products' appearance and flavorings were also adjusted in order to make them more pleasing to local tastes.

In Venezuela, PFI mainly markets high-quality pasta, pasta sauce, and powdered soft drinks. Sales and profits rose in 1978 despite government price controls. Expanding upon the success of its Sabritas brand orange flavored drink mix, the company added coconut and pineapple flavors, and sales exceeded expectations.

In Canada, improvements in operating efficiency and increased second-half sales growth in the Province of Quebec enabled PFI to report better results in a very difficult operating environment.

Building upon the strong sales and profit performance of 1978, PFI anticipates another strong year in 1979.

**Food Service.** In June 1978, PepsiCo widened its participation in the growing food service industry with the acquisition of Taco Bell, a major chain of Mexican food restaurants in the United States. With the Pizza Hut merger in November 1977, PepsiCo now has a leading position in two of the fastest growing sectors of the food service industry.

While the industry had another strong year in terms of expanding dollar sales (up about 10 percent), most of the gain resulted from price increases required to offset swelling food and labor costs. Real volume, then, grew rather slowly—about two percent for the year, and even slower late in 1978.

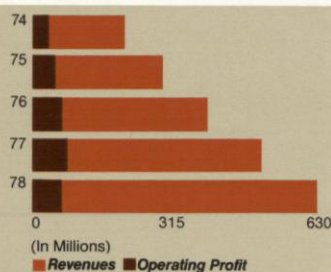
Looking to the future, both Pizza Hut and Taco Bell should benefit from a number of emerging factors that will be favorable to the food service industry in the 'eighties.

1. There will be significant enlargement of the *age group* that spends the most money on food away from home, those 25 to 55 years of age, eventually representing 37 to 42 percent of the population.
2. At the same time, the *income group* that tends to spend the most money on food away from home will be a larger part of the population.
3. The number of working women will grow 32 percent in the coming decade. Concurrently, there will be growth in the number of single-parent households and a decline in the average household size. Both of these factors favor the restaurant industry.
4. There will be a rising level of disposable income per family.

As a result of these trends, eating out will soon account for substantially more than the one out of every three dollars spent on food which it represents today.

With the favorable combination of an expanding market for eating out and the leadership position Pizza Hut and Taco Bell have established in the pizza and Mexican food segments of the restaurant industry, the long-term outlook is positive for the Food Service Division.

**Pizza Hut:** The Pizza Hut system continued to expand in 1978, adding 488 new restaurants to total 3,710. Plans are to add about 400 more in 1979. Company-operated units rose by 297 to 1,958. Franchise units increased by 191 to



This Japanese unit is one of 167 Pizza Hut International stores.



1,752. This growth includes 26 new international stores for an overseas total of 167. In all, the system expanded 15 percent, making an important contribution to Pizza Hut's 1978 revenue increment of 22 percent. Sales per store rose about four percent.

Intensified competition in 1978 and apparent customer resistance to price increases averaging more than 10 percent began to affect the store sales trend. Supported by an intensified advertising and marketing program, measures were promptly taken to respond with higher value products such as SuperStyle pizza; results to date have been encouraging. SuperStyle quickly won wide acceptance, commanding nearly 50 percent of total pizza sales in recent periods.

More importantly, real volume per store, although down somewhat in 1978, reflected considerably less decline in the final months of the year. An intensified program to assure consistent adherence to Pizza Hut's high standards for product quality, customer service, store appearance and convenience is being implemented throughout the system.

Substantial growth in the average sales per store was characteristic for Pizza Hut's International Division and for some local markets in the U.S. Responding to varying competitive conditions and local customer preferences, effective programs were developed with major support from the home office marketing and personnel staffs. With remarkable results in increased sales and customer traffic, this approach extends into 1979 and should pay dividends more broadly across the system. These improvements are expected to start a better trend of revenue growth in 1979.

Pizza Hut's Distribution and Food Processing Division expanded its operations in 1978 to supply 80 percent of the food requirements for 97 percent of the system. The operation continues to provide quality supply sources at favorable cost to all participants.

Applegate's Landing, Pizza Hut's chain of Italian-style "dinner house" restaurants, expanded from 10 to 17 units in 1978 and continues as an avenue of potential growth in the broader menu segment of the market.

**Taco Bell:** Acquired by PepsiCo in 1978, Taco Bell is by far the major factor in the Mexican restaurant field in the United States. There are over 970 Taco Bell restaurants operating in 41 states and Guam. Of these, approximately half are company-operated; half are franchised. Each restaurant features a limited menu of inexpensively priced, quality Mexican food.

For the immediate future, Taco Bell will focus primarily on expansion throughout the United States with 150 new restaurants scheduled for 1979. Positive consumer reaction has been experienced as Taco Bell's Mexican food products are introduced into new markets. The climate for this expansion is favorable since many areas of the country are still untapped.

Since Taco Bell's beginning in Southern California in the mid-1960's, the chain has maintained a consistent architectural design, a simple menu, and the highest quality food standards. Over the years, Taco Bell has kept pace with the advancements of the fast food industry by incorporating refinements in its restaurant buildings, without altering its unique mission-style architecture. The original concept of an outside patio has progressed to today's building with an enclosed dining room accommodating 46 customers.

In support of the industry trend toward complete meal dining, Taco Bell has added three entrée items to its original five-item menu. Currently, two new products are being tested: Taco Bell's own Kettle Fresh Chili and the Taco Supreme, an additional offering of the company's most popular item. At the present time, consistent with the limited menu concept, only nine food ingredients are used to prepare eight complete menu items.

In the food service industry, Taco Bell is somewhat unique for using only fresh food products to prepare each menu item as ordered. The company's current advertising theme, "The Fresh Food Place," capitalizes on this competitive advantage.

During the coming year, two-thirds of the company-operated restaurants will be served by Bell Foods Services, a wholly-owned subsidiary supplying food products and paper goods.

Taco Bell is a unique marketing concept and a proven restaurant operation supported by an experienced and capable management group dedicated to capitalizing on the company's opportunities.

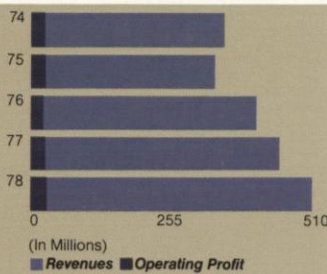


*Customer service and product quality are the top priorities for Pizza Hut employees.*



*Taco Bell's architectural design is consistent throughout its system of over 970 restaurants. Operating within a limited menu concept, only nine food ingredients are used to prepare all eight Taco Bell menu items.*





**Transportation. northAmerican Van Lines (NAVL)** moved further ahead than ever before in both revenue and profit in 1978. In spite of inflation, the basic economic indices affecting NAVL's markets remained comparatively strong during the year. The company was able to respond to an increase in housing starts, appliance sales, and office and home relocations from its strengthening position in sales, service, and market coverage.

One of the keys to upgrading service is adding to the corps of qualified contract truckers, particularly by recruiting and training new owner/operators. To that end, two mobile classrooms were added to NAVL's extensive internal training program, and recruiting was stepped up to increase the average fleet size by 500 owner/operators, 25 percent over the 1977 level of 2,000. Financing for owner/operator tractors was shifted to a bank arrangement, further enlarging NAVL's cash base and improving the company's return on assets employed.

The company's Household Goods Division moved a record 123 thousand shipments in 1978. Also, NAVL significantly bolstered its traditional position as a predominantly household and office moving company by establishing equally impressive credentials as a commodity shipping concern. Both in physical size and revenue, the segments of its business dealing with the transportation of non-household items have grown to include more than half of its sales. A high level of retail activity in appliances and furniture helped advance the New Products Division, for example, providing major cost-saving service to manufacturers and retailers.

The New Products Division, with a fleet of more than 5,000 tractors and trailers, closed out another year of exceptional growth in shipments of commodities from manufacturers directly to retailers' showrooms and cross-dock distribution facilities. Many of NAVL's special trailers are equipped to transport uncrated merchandise, reducing packing and shipping costs for the manufacturer. This part of the business grew 35 percent in 1978.

The High Value Products Division (HVP) specializes in carrying costly electronic components, computer mainframe assemblies, expensive trade show displays, and valuable collections like Egypt's 55-piece King Tutankhamun Exhibit. Three of NAVL's elite air ride, climate-controlled tractor-trailer units, under security arrangements as tight as the tomb, handled the Exhibit's moves to museums in Washington, D.C., Chicago, New Orleans, Los Angeles, and Seattle during its 26-month U.S.A. tour. HVP's 73 thousand shipments, not all quite as spectacular as the Tut Exhibit, showed a 24 percent volume increase over 1977. Like its New Products counterpart, this division is extending its operating authorities while continually burnishing its image as a high-quality, competent mover of specialty items.

**Lee Way Motor Freight**, a general commodity common carrier, concluded in 1978 its reorganization of centrally directed functions and the installation of an advanced on-line computer system for freight tracing and billing. The addition of this new system has enhanced Lee Way's ability to provide quality service to its shippers from the point of pickup to destination.

The year was one of consolidation and reassessment in which a strengthened management team produced a 12 percent improvement in revenues. Much of this growth was a direct result of Lee Way's continuing shift in market emphasis to higher margin, less-than-truckload business, particularly between the long-haul transcontinental markets. Through better scheduling and loading practices, the average weight carried per trailer rose 300 pounds during the year, reflecting improved utilization of equipment.

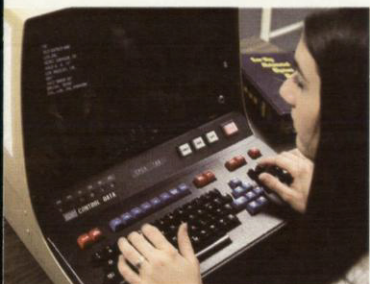
Lee Way is becoming a strong competitor in the Southeastern U.S. following the late-1976 acquisition of route authority for the Carolinas and the successful application of marketing and sales resources designed to increase market share. Further expansion of the route network occurred in 1978 with the acquisition of route authority for Milwaukee, broadening Lee Way's coverage of the Chicago market area.

With 600 tractors and 2,300 trailers in its linehaul fleet, providing service to over 60,000 customers, through 80 terminals in 24 states, Lee Way is giving top priority to providing high-quality service through expert management of available capacity and greater operating efficiency, both on the road and in its terminals.

**PepsiCo Building Systems:** For PepsiCo Building Systems (PBS), 1978 was the best year in its history. PBS builds relocatable, modular structures principally for temporary office needs. Quality PBS units, a standard in the field, accommodate an array of temporary space requirements for industry, banks, and medical facilities.

A large portion of new business attributed to expanding employment in the aerospace industry and increased defense spending helped PBS successfully market in the Sun Belt and on the West Coast. Regional sales and rental offices were opened during the year in Dallas, Texas and California's San Fernando Valley; four more are planned for 1979 to assist PBS's expansion into new markets.

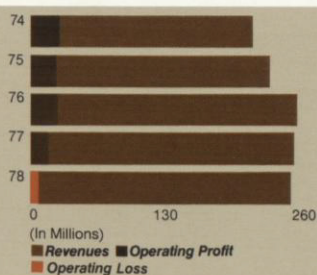
Among NAVL's record setting 1978 shipments was the complete exhibit "Treasures of Tutankhamun" carried by the High Value Products Division during the Exhibit's U.S. tour.



Improved Lee Way loading practices and system coordination have increased the average weight carried per trailer.

A sophisticated on-line computer system was recently installed at Lee Way headquarters to aid freight tracing and billing.





**Wilson Sporting Goods.** Facing another year of deteriorating conditions in the sporting goods industry, Wilson kept its favorable market position and finished 1978 with sales only slightly below its prior year level. Profits declined substantially, however, as the continued imbalance of supply and demand in the industry led to abnormally large inventories and extensive discounting, particularly in the second half of the year. Accordingly, Wilson realized a small profit before one-time provisions for inventory valuation and bad debts produced a loss for the year.

The Wilson name continues to represent the finest and broadest line of products for sports enthusiasts around the world. Leading professionals play and win with Wilson equipment while new products developed by Wilson continue to set standards in the industry. Here and abroad, Wilson is becoming a more important factor in the growing world of sports participation.

Industry golf sales were particularly soft in 1978. Nevertheless, Wilson did relatively well with a percentage decline less precipitous than the industry drop of close to ten percent. Market surveys indicate that Wilson has in pro shops the three top selling pro-club models in the business: the Wilson Staff, Wilson 1200, and Reflex clubs.

The ProStaff golf ball continued its strong performance with sales rising more than ten percent in 1978, clearly representing a growing share of this competitive segment of the market.

In racket sports, Wilson had a small decline in sales although substantial gains in racquetball equipment and clothing nearly offset the declines in its tennis business. Still, there were especially favorable sales results from the new Extra oversized and Lady Advantage tennis rackets introduced during the year. Wilson has won a strong position in the growing sport of racquetball with its 1978 sales nearly double those of the year before. Active sportswear also registered an important sales increase. Even in the face of the industry's oversupply and price discounting, the Wilson tennis ball is still America's number one choice.

Team sports showed a small sales gain in 1978 even though the division was introducing its new Wilson by Bata line of shoes. Meanwhile, the basic sports equipment for baseball, basketball, and football recorded excellent sales gains.

In its international business, Wilson's sales advanced to a new record level with a healthy increase of 20 percent in 1978. Gains were particularly strong in Britain, Japan, Australia, and in several areas of the Far East. The ProStaff golf ball was introduced abroad and first steps were taken to develop a substantial tennis business in Europe and Japan.

Looking ahead, a meaningful improvement in Wilson's sales and profit depends heavily upon the restoration of growth and a reasonable supply / demand balance in its industry. Wilson's strong name and position, though, together with its organizational resources, indicate a potential for favorable results when the sporting goods business does improve. In the meantime, particular attention is being given to the stronger areas of the business, such as the new products in golf and tennis, racquetball, the basic team sports, and the growing international markets.

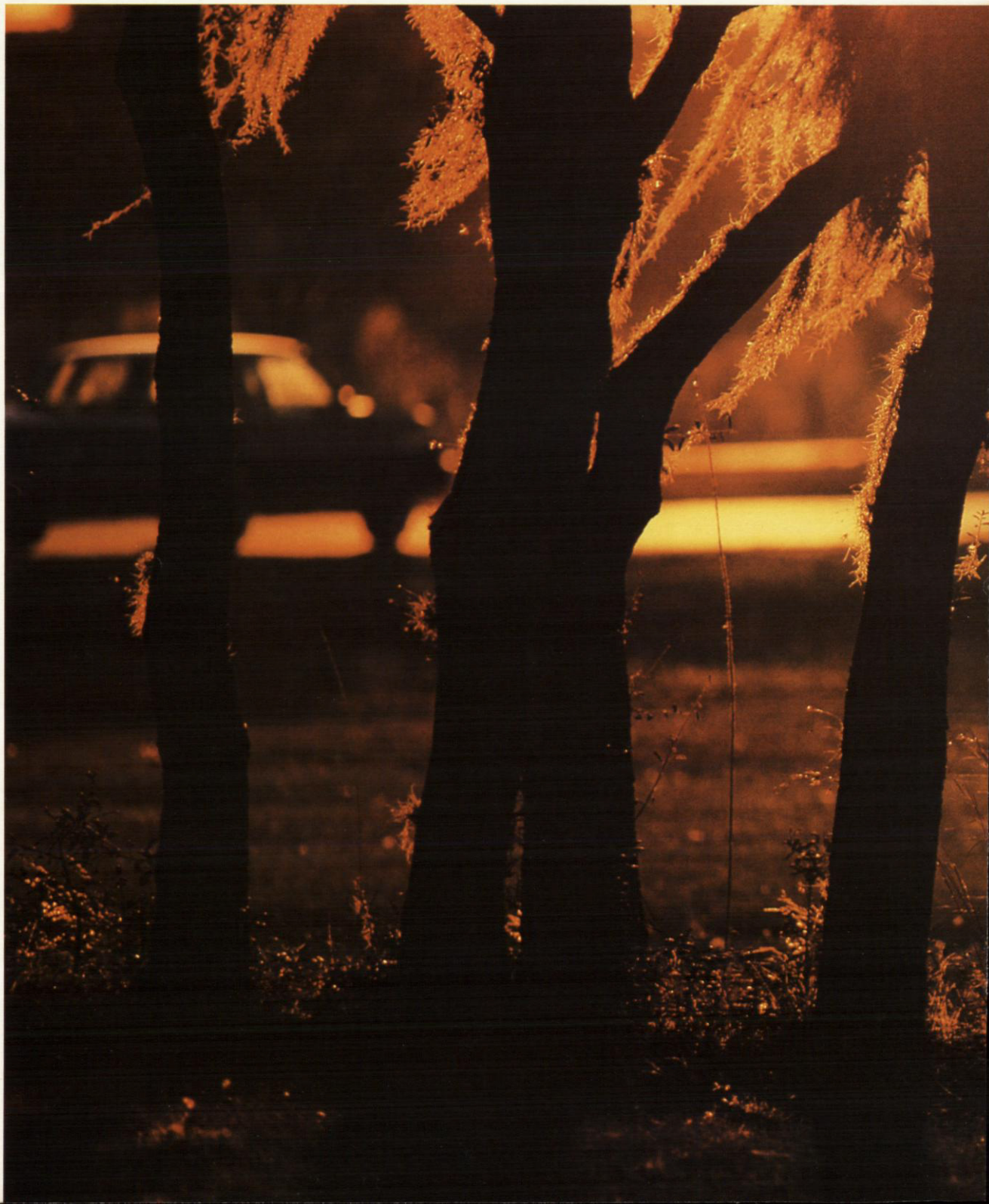
1978 sales results from Advantage racquetball rackets and Lady Advantage tennis rackets were very encouraging.

The Wilson Staff has been the number one club on the PGA tour for several years and, in 1978, became the number one selling model in pro shops.





With greater emphasis on recreation and self-improvement, today's society is taking its "time off" much more seriously. Pepsi-Cola plays an important part in making these times as pleasurable as they are rewarding.





***As 1979 runs into the 'eighties, all of PepsiCo's products and services will continue to be a key ingredient of American life.***

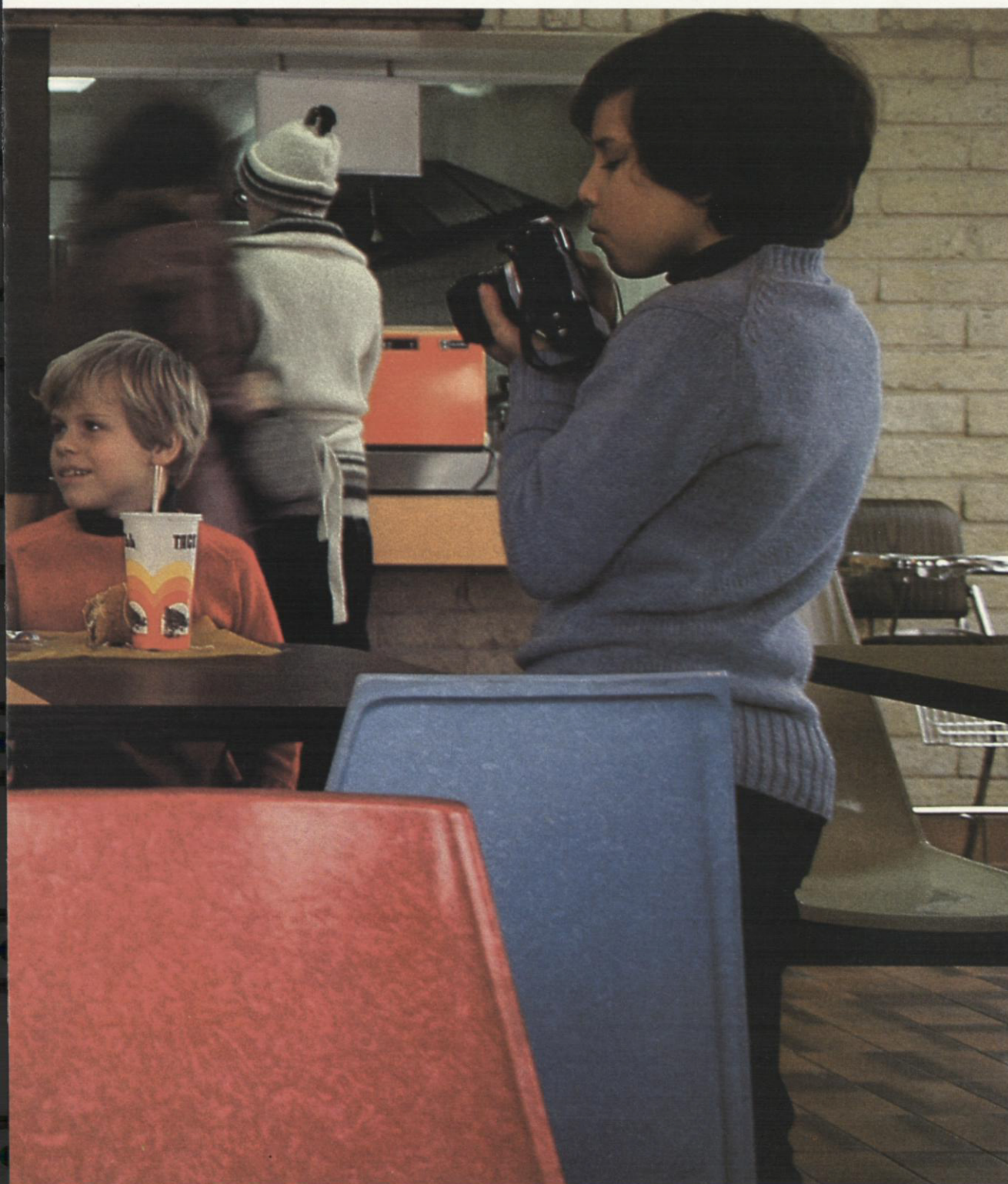




*With working women and single-parent families on the increase, fast-food and family restaurants provide a pleasant experience and necessary convenience in today's quest for the "good life."*







*The expansion of our Food Service companies, Pizza Hut and Taco Bell, tracks with their growing popularity due, in part, to the changing configuration of the family and workforce.*



*Frito-Lay is one of the nation's largest buyers and processors of potatoes—as well as of corn and cooking oils. In the Allen Park, Michigan snack food plant, potatoes are sorted on their way to becoming Lay's brand potato chips.*







Today, more employees place priority on individual achievement and personal fulfillment—both in their work and during leisure time. PepsiCo continues to implement its policy of seeking to provide broad opportunities for employment, training and advancement, without regard to race, color, religion, sex, age, ethnic origin or those that are handicapped.



**Industrial innovation, superior quality control, and increased productivity depend upon employing state-of-the-art technology in all areas of research and development.**

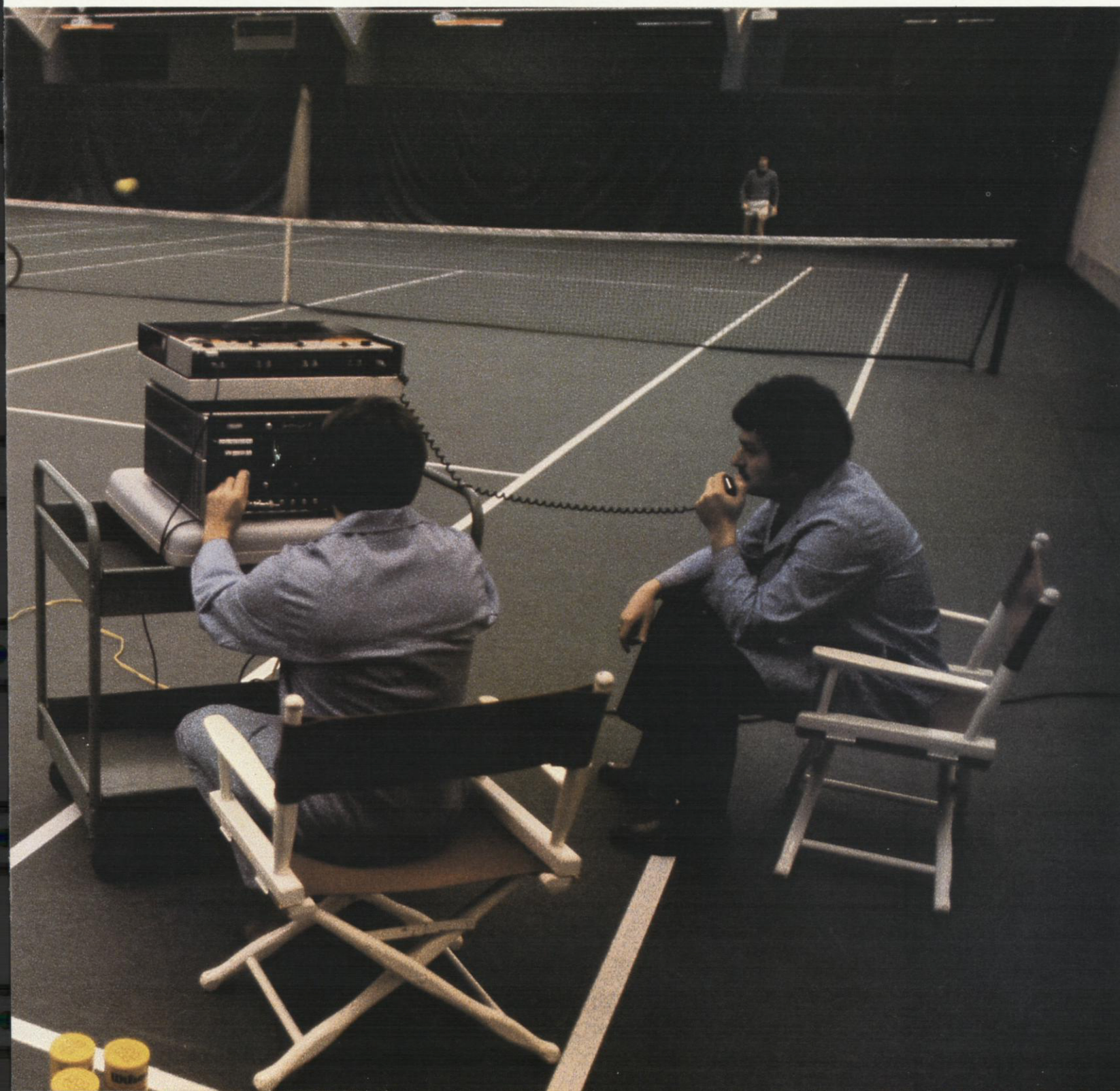
**Wilson engineers use a piezoelectric accelerometer and a real time analyzer to quantify "feel" in a tennis racket.**



Wilson's Ultra/pws, 100 percent graphite and perimeter-weighted, is a revolutionary concept in tennis racket design. This is just one of the many successful PepsiCo products derived from knowing how to use advanced technology.







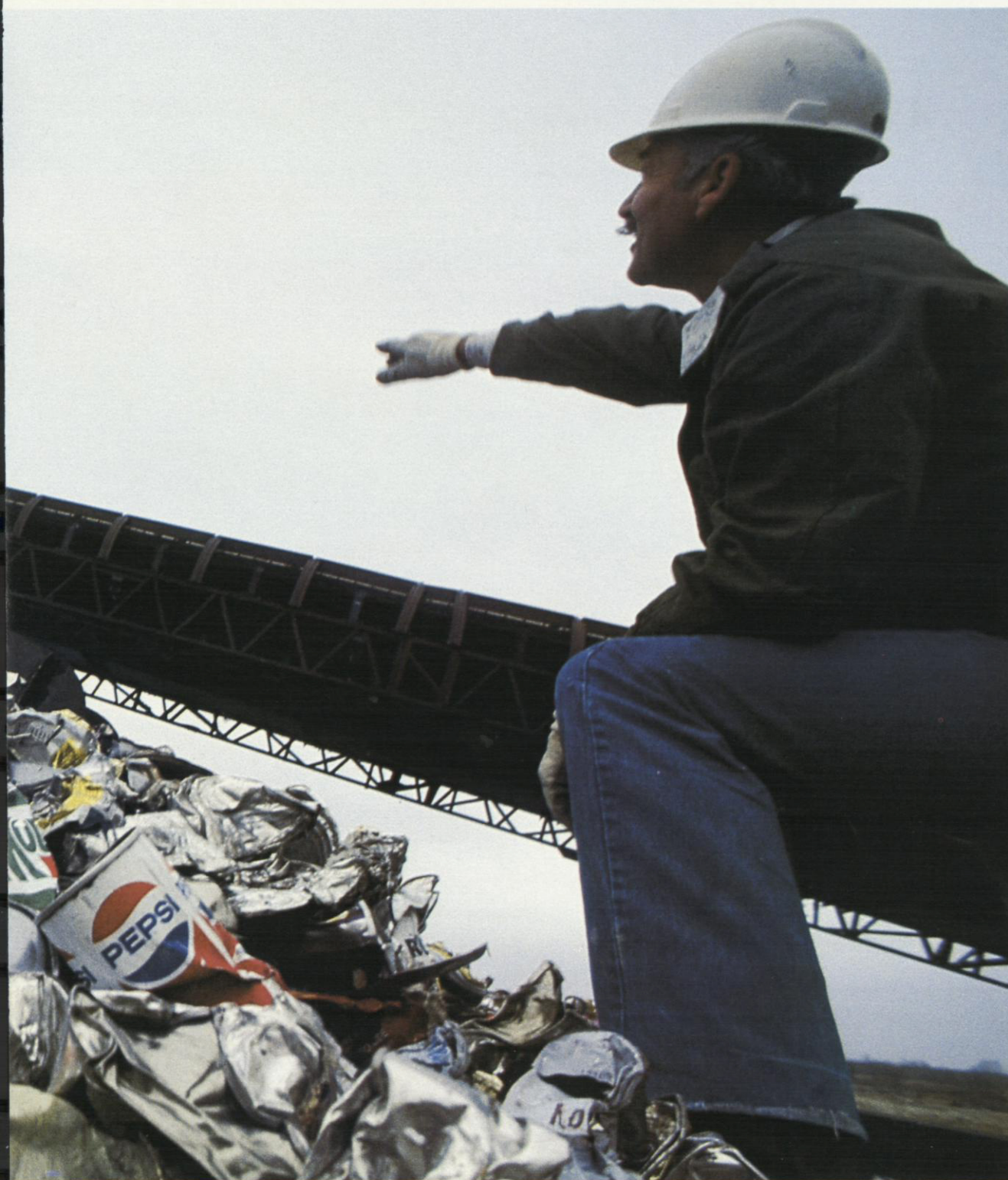


***With deep concern for the environment of tomorrow, today's business community is continually searching for methods to improve waste recovery and energy conservation.***

***At a recycling center in New Orleans, designed by the National Center for Resource Recovery, aluminum is separated from steel and other materials. In 1978, one out of every four aluminum cans made was recycled.***







Recyclable aluminum is only one example of PepsiCo's commitment to find solutions to environmental problems.

Pepsi-Cola's plastic bottle can be recycled into X-ray film, fishing line, or clothing, and burns easily with an energy value equivalent to coal.





PepsiCo encourages its personnel to become active in politics. A Lee Way employee, J. M. Morales (third from left), serves as a city councilman in Warr Acres, Oklahoma and is a member of EMPAC, Employees' Political Affairs Campaign.





*The deep inroads made by federal legislation into the private sector underscore the need for broader political awareness and involvement of all United States citizens.*





*As we give more attention to the  
quality of life where one works  
than to just working,  
northAmerican Van Lines has a  
larger part in the way our  
population redistributes itself.*







The emergence of the Sunbelt as the fastest growing population area in the United States has not caught northAmerican Van Lines by surprise.

Following the shifting population trends and keeping up with census figures, northAmerican projects geographic areas of greatest promise for present and future business.





*With PepsiCo's soft drinks and snack foods being consumed in more than 140 countries, international trade is plainly one of the most important aspects of our business. A stable and coherent federal trade policy would help our economy as well as the economies of our trading partners.*





***Facing continued inflation and bearing a trade deficit that grows heavier every year, America needs to take steps to make the nation more competitive in a world of economically interdependent nations.***





**Participatory Democracy:** Today, federal government actions are a major force in shaping the economy of the United States.

For this reason, it grows more important each year to elect legislators who understand the importance of a sound economy in providing opportunity and are sensitive to the economic impact of their actions.

PepsiCo strives to be a good corporate citizen, to maintain constructive, open communications with local community leaders. Our employee code of conduct says:

- ☐ PepsiCo will continue to state its position on issues of national and international importance which may have an impact upon it or its operations throughout the world.
- ☐ We believe that it is each citizen's right to decide whether or not to participate in political, community, educational, and similar activities. We will, therefore, continue to communicate information and opinion on issues of public concern which may affect PepsiCo.
- ☐ Decisions by our employees whether or not to contribute time, money, or resources of their own to any political or other activity are entirely personal and voluntary.

In this regard, PepsiCo is involved in two major activities:

**Concerned Citizens Fund:** A political action committee organized to permit company executive, professional, and administrative personnel to pool their political contributions to support candidates for federal office who believe in economic growth. The Fund offers people the opportunity to get more involved in the political process. By combining their contributions, members of the Fund have a greater impact upon the political system. Interested shareholders are also invited to contribute to PepsiCo's Concerned Citizens Fund by writing:

Concerned Citizens Fund/PepsiCo, Inc./Purchase, New York 10577

**EMPAC:** PepsiCo's Employee Political Affairs Campaign (EMPAC) informs employees on a voluntary non-partisan basis about key political issues and activities that can affect their jobs and their society. The program also encourages employees to learn more about the American political system by participating in local political activities. To learn more about PepsiCo's EMPAC, write:

EMPAC/PepsiCo, Inc./Purchase, New York 10577

In addition, PepsiCo shareholders may be interested in the activities of:

**Citizen's Choice:** Created about two years ago as a grass roots, participatory program, Citizen's Choice helps educate Americans about legislation and other federal government activities that affect the economic and business climate of our society. In addition to publishing a newsletter for members, the organization is a strong advocate of free enterprise with federal legislators. Citizen's Choice is committed to limiting the growth of government, challenging unnecessary taxation, and fighting inflation. For information write to:  
Citizen's Choice/1615 H Street, N.W./Washington, D.C. 20062

The special quality of our open, active society has encouraged an array of proponent groups to rearrange the matrix of our federal system. They have set in motion a series of changes in government that has stretched our system into complex, inefficient, even harmful proportions. Too much power has fallen into the hands of appointed officials. The government is an oversized mechanism that cannot properly serve its citizens, and has gone beyond the original constitutional intentions.

As members of this society, we will all have to consider spending more of our time helping to make it run. More of us should become involved. Conflicting, narrow viewpoints can only be cleared when the insight that comes with information yields to a broad view of the overall situation. On this wider path, we all have basically identical interests. To make this work, you must be heard.



**Analysis Of Operations:** In 1978, PepsiCo continued its unbroken trend of improved revenues and net income. Sales and operating revenues rose to \$4.3 billion, representing an increase of 18% over 1977. In 1977, total revenues were \$3.65 billion, representing an increase of 17% over 1976. Net income for 1978 rose 15% over 1977 to \$225.8 million after a gain of 22% in 1977 to \$196.7 million. However, adjusted to exclude certain non-recurring items, discussed below, PepsiCo had a 15% gain over 1977 in pre-tax profits and a 19% rise in net income. All 1977 amounts have been restated to reflect Taco Bell's merger with PepsiCo in June 1978. It should also be noted that PepsiCo's fiscal years in 1978 and 1976 comprised 52 weeks, compared with 53 weeks in 1977, and the fourth quarter of 1978 contained 16 weeks, compared with 17 weeks in 1977.

In the most recent five-year period ended December 1978, PepsiCo's compound growth rate for earnings exceeded any prior five-year period in PepsiCo's history. While revenues grew 17.3% per year, earnings advanced 20.3% and earnings per share rose 19.2%.

The non-recurring items that affected 1978 results, but which are not indicative of current or future operations, are as follows (pre-tax figures):

1. A charge to expense in the fourth quarter of \$8.8 million as an allowance for all outstanding receivables due from franchise bottlers in Iran.
2. A credit to income in the fourth quarter of \$13.3 million received by Frito-Lay in settlement of litigation in connection with commodity purchasing over a period of years.
3. A charge to expense in the fourth quarter of \$9 million by Wilson Sporting Goods for inventory valuation and bad debts.
4. Foreign currency translation losses related to the Swiss franc debt and other charges to expense associated with its prepayment by year end, totaling \$10.2 million.

**Discussion of 1978 Results:** Revenues advanced substantially in both 1978 and 1977 mainly because of strong gains in unit volumes. Physical volumes were up in all business segments except sporting goods and were particularly strong in the beverage and food products businesses. Price increases and changes in product mix accounted for roughly 40% of the revenue gains in 1978.

After a substantial increase of 1.1% in 1977, the gross profit margin remained steady at 48.3% in 1978, despite declines in the food service and sporting goods businesses. Marketing, administrative, and other expenses increased 18% in 1978 after a 21% increase in 1977, as heavy spending continued in support of long-term product and marketing programs. Total advertising expense, for example, continued to increase at the rates of 31% in 1977 and 16% in 1978.

Foreign currency translation losses, principally related to the Swiss franc borrowing which was retired in December 1978, increased from \$7.8 million in 1977 to \$11.6 million in 1978. Similar losses for the 4th quarter were \$2.9 million in 1978 and \$7.6 million in 1977. Administrative and other expenses reflected substantial increases in pension expense for both 1977 and 1978.

There was an increase of \$9.9 million in 1978 in the net interest expense (after deducting interest income). Interest expense increased by \$6 million largely due to the higher market rates applicable to short-term debt in 1978. Interest income declined by \$3.9 million, primarily due to a reduction in marketable securities.

The provision for U.S. and foreign income taxes was 44.6% of income before such taxes in 1977, and 43.6% in 1978. The reduction resulted principally from larger investment tax credits and the increased proportion of earnings coming from foreign countries with tax rates below the U.S. rate of 48% in 1978.

Margins and returns continued at favorable levels for PepsiCo in 1978. Inflationary cost increases put pressure on margins but were generally offset by a combination of price increases and productivity gains. Profit margin per dollar of revenue was 9.3% in 1978 compared with 9.7% in 1977 and 9.6% in 1976, on a pre-tax basis, and was 5.3%, 5.4%, and 5.2% in 1978, 1977, and 1976, respectively, on an after-tax basis. With continued emphasis on asset utilization, return on assets employed reached a new high of 14.7% in 1978, compared with 14.6% in 1977, and 13.5% in 1976.

Return on average shareholders' equity also was relatively steady at 20.8%, following a restated 21.0% in 1977, and 20.4% in 1976.



**Business Segments:** The data for years prior to 1978 have been restated for the merger of Taco Bell (see Note 2 of Notes to Consolidated Financial Statements).

Revenues (in millions)	1978		1977		1976		1975		1974	
	\$	%	\$	%	\$	%	\$	%	\$	%
Beverage	1,698.4	39	1,406.8	38	1,160.5	37	1,064.9	39	981.6	41
Food products	1,231.8	29	1,048.3	29	911.9	30	806.7	30	673.4	28
Food service	622.1	14	499.8	14	382.0	12	283.2	11	199.0	8
Transportation	501.1	12	444.3	12	401.9	13	327.7	12	344.2	14
Sporting goods	246.6	6	250.1	7	253.1	8	226.9	8	210.6	9
Total	4,300.0	100	3,649.3	100	3,109.4	100	2,709.4	100	2,408.8	100
Foreign portion	902.2	21	686.0	19	569.5	18	535.0	20	462.6	19
<b>Operating Profit (in millions)</b>										
Beverage	227.0 <sup>[2]</sup>	48	180.2	44	143.5	40	111.4	38	114.0	48
Food products	158.2 <sup>[3]</sup>	34	116.3	28	106.5	30	87.4	30	38.3	16
Food service	64.1	14	73.6	18	62.1	17	43.7	15	31.5	13
Transportation	29.3	6	25.6	6	21.3	6	22.7	8	26.8	11
Sporting goods	(7.5) <sup>[4]</sup>	(2)	16.4	4	26.5	7	24.8	9	27.2	12
Total [1], [2], [3]	471.1	100	412.1	100	359.9	100	290.0	100	237.8	100
Foreign portion	83.1	18	52.8	13	49.2	14	46.2	16	40.1	17

[1] Excludes general corporate expenses and interest expense (net) which totaled as follows (in millions): 1978, \$75.5; 1977, \$57.1; 1976, \$62.8; 1975, \$69.4; 1974, \$64.3.

[2] Excludes an \$8.8 million expense related to receivables from Iran in 1978.

[3] Excludes a \$13.3 million credit for settlement of litigation in 1978.

[4] Includes a \$9.0 million expense related to receivables and inventory.

In 1978, there were substantial increases in revenues in all businesses except sporting goods. Margins were up and operating profits advanced in three segments—beverage, food products, and transportation—while declines in profits and margins occurred in food service and sporting goods.

The beverage line of business kept up its rate of growth in excess of 20% in both sales and profits, based on gains in case sales of nearly 10% domestically and more than 15% overseas. Operating profit margins rose 0.6 percentage point in 1978, reflecting particularly strong gains in foreign soft drinks, after a 0.4 percentage point gain the year before.

In food products, growth in sales and profits accelerated in 1978 and the operating profit margin improved after a decline in 1977. In 1978, the 36% rate of profit growth was double the 18% rate for sales, largely reflecting productivity gains and recovery in the price/cost relationship after a margin squeeze and foreign currency penalties in 1977. Foreign operating profit for 1978 more than trebled that of 1977.

The food service business reflected continued growth in sales with a gain of 24% following the 31% increase in 1977. Operating profits declined 13%, however, largely as a result of increased spending for product improvement and intensified marketing programs at Pizza Hut. Taco Bell continued to show important gains in sales and profits.

Transportation continued a pattern of improving revenues and profits, primarily reflecting important gains in north American Van Lines. Revenues rose 13% in 1978 and 11% in 1977, while operating profits increased 14% in 1978 after a 20% rise in the prior year.

Sporting goods reflected another small decline in revenues in 1978 and an operating loss of \$7.5 million after the \$9 million non-recurring provision described above. The industry faced continuing slow sales and oversupply in 1978. Wilson's sales were off 1% in both 1978 and 1977. Margins were under pressure in both years, as costs increased and price discounting continued.

Revenues and operating profits from foreign operations grew considerably faster than those from domestic operations in 1978. As a result, the foreign operations accounted for a larger share of PepsiCo's revenues and profits in 1978 than in 1977 and 1976. For the years 1977 to 1978, the foreign portion of revenues increased from 19% to 21%, and of operating profits from 13% to 18%.



**Stock Price and Dividends:** The range of market prices for PepsiCo stock, as reported by the New York Stock Exchange, and the dividends declared in each quarter of the last two years are set forth in the table below. The quarterly dividend was increased 11% in May 1978 from 22½¢ per share to 25¢ per share, following two increases in 1977 totaling 35% that raised the per share dividend from 16⅔¢ to 22½¢.

Quarter	Market Price Range		Close	Dividend
	High	Low		
1977				
1st Quarter	26¼	22½	24¼	20¢
2nd Quarter	25	22½	23⅞	20¢
3rd Quarter	27	22½	25½	20¢
4th Quarter	28½	24½	28	22½¢
1978				
1st Quarter	28¼	24½	26⅞	22½¢
2nd Quarter	32½	25½	30	25¢
3rd Quarter	33½	28¼	31⅞	25¢
4th Quarter	32¼	24½	25½	25¢

**Capital Expenditures:** Expenditures (excluding capital leases) for plant and equipment increased to a record level of \$347 million in 1978, including \$16 million attributable to Taco Bell. In 1977, these expenditures amounted to \$254 million, including \$13 million for Taco Bell. The continuing growth of PepsiCo's businesses, particularly soft drinks and snack foods, calls for even higher expenditures for capital expansion in 1979, currently estimated at approximately \$435 million.

**Capital Structure:** Total consolidated debt of PepsiCo rose by \$20 million in 1978, principally in the categories of capital lease obligations and senior long-term debt. PepsiCo's financial position continued to strengthen as shareholders' equity increased by \$164 million to \$1,168 million. Accordingly, at the end of 1978, the ratio of total debt to total capital improved to 31.5% from 34.0% a year earlier. The combination of a healthy cash flow from operations and some external financing is expected to continue to fuel PepsiCo's growth while maintaining its strong capital structure.

	1978	1977*
	(in thousands)	
Short-term debt—domestic .....	\$ 671	\$ 349
—foreign .....	43,345	37,576
Total short-term debt .....	44,016	37,925
Long-term debt—current .....	5,124	3,927
—non-current:		
—senior .....	279,092	260,840
—subordinated .....	39,123	54,981
Total long-term debt .....	323,339	319,748
Total debt .....	367,355	357,673
Capital lease obligations		
—current .....	8,140	6,716
—non-current .....	160,919	151,987
Total capital lease obligations .....	169,059	158,703
Total debt and capital lease obligations .....	536,414	516,376
Shareholders' equity .....	1,167,659	1,003,401
Total capital .....	\$1,704,073	\$1,519,777

\*Restated to include Taco Bell.



**Consolidated Balance Sheet** (in thousands)

PepsiCo, Inc. and Subsidiaries

December 30, 1978 and December 31, 1977

<b>Assets</b>	<b>1978</b>	<b>1977</b>
<b>Current Assets</b>		
Cash .....	\$ 30,128	\$ 30,362
Marketable securities, at cost (approximates market) .....	136,497	238,146
Notes and accounts receivable, less allowance: 1978—\$27,527; 1977—\$15,772 .....	433,650	374,399
Inventories .....	354,611	315,877
Prepaid expenses and other current assets .....	54,478	38,231
	<u>1,009,364</u>	<u>997,015</u>
<b>Long-Term Receivables and Investments</b>		
Long-term receivables .....	47,297	43,766
Investments .....	22,503	24,884
	<u>69,800</u>	<u>68,650</u>
<b>Property, Plant and Equipment</b>		
Land .....	91,699	70,007
Buildings .....	322,137	248,569
Machinery and equipment .....	1,002,120	804,732
Capital leases .....	180,764	171,158
Bottles and cases, net of customers' deposits: 1978—\$36,136; 1977—\$28,832 .....	41,698	22,545
	<u>1,638,418</u>	<u>1,317,011</u>
Less accumulated depreciation and amortization .....	500,674	431,683
	<u>1,137,744</u>	<u>885,328</u>
<b>Goodwill</b> .....	157,603	143,196
<b>Other Assets</b> .....	44,858	36,105
	<u>\$2,419,369</u>	<u>\$2,130,294</u>

See accompanying notes.



<b>Liabilities and Shareholders' Equity</b>	<b>1978</b>	<b>1977</b>
<b>Current Liabilities</b>		
Notes payable (including current installments on long-term debt and capital lease obligations) .....	\$ 57,280	\$ 48,568
Accounts payable .....	263,844	208,708
United States and foreign income taxes .....	69,481	87,265
Other accrued taxes .....	35,476	31,433
Other current liabilities .....	224,603	198,487
	<u>650,684</u>	<u>574,461</u>
 <b>Long-Term Debt</b> .....	 318,215	 315,821
 <b>Capital Lease Obligations</b> .....	 160,919	 151,987
 <b>Other Liabilities and Deferred Credits</b> .....	 41,592	 27,524
 <b>Deferred Income Taxes</b> .....	 80,300	 57,100
 <b>Shareholders' Equity</b>		
Capital stock, par value 5¢ per share; authorized 135,000,000 shares in 1978, 100,000,000 shares in 1977; issued and outstanding: 1978—93,075,103 shares; 1977—91,794,150 shares .....	4,654	4,590
Capital in excess of par value .....	191,351	164,541
Retained earnings .....	971,654	834,270
	<u>1,167,659</u>	<u>1,003,401</u>
	<u>\$2,419,369</u>	<u>\$2,130,294</u>



**Consolidated Statement of Income and Retained Earnings** (in thousands except per share amounts)

PepsiCo, Inc. and Subsidiaries

Years ended December 30, 1978 (fifty-two weeks) and December 31, 1977 (fifty-three weeks)

	1978	1977
<b>Revenues</b>		
Net sales .....	<b>\$3,774,628</b>	\$3,186,720
Other operating revenues .....	<b>525,378</b>	462,571
	<b><u>4,300,006</u></b>	<u>3,649,291</u>
<b>Costs and Expenses</b>		
Cost of sales .....	<b>1,825,162</b>	1,533,105
Cost of other operating revenues .....	<b>399,337</b>	348,637
Marketing, administrative and other expenses .....	<b>1,645,142</b>	1,392,195
Interest expense .....	<b>51,996</b>	45,983
Interest income .....	<b>(21,748)</b>	(25,643)
	<b><u>3,899,889</u></b>	<u>3,294,277</u>
	<b>400,117</b>	355,014
Provision for United States and foreign income taxes (including deferred: 1978—\$14,100; 1977—\$7,600) .....	<b><u>174,348</u></b>	<u>158,273</u>
<b>Net Income</b> .....	<b>225,769</b>	196,741
Retained earnings at beginning of year, as restated .....	<b>834,270</b>	704,550
Cash dividends (per share: 1978—\$.975; 1977—\$.825) .....	<b>(88,385)</b>	(67,021)
Retained earnings at end of year .....	<b><u>\$ 971,654</u></b>	<u>\$ 834,270</u>
<b>Net Income Per Share</b> .....	<b><u>\$ 2.43</u></b>	<u>\$ 2.14</u>

See accompanying notes.



**Consolidated Statement of Changes in Financial Position** (in thousands)

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PepsiCo, Inc. and Subsidiaries

Years ended December 30, 1978 (fifty-two weeks) and December 31, 1977 (fifty-three weeks)

	1978	1977
<b>Financial Resources Provided</b>		
Operations		
Net income .....	\$ 225,769	\$196,741
Depreciation and amortization .....	117,019	93,723
Deferred income taxes .....	23,200	10,800
Other .....	12,495	11,624
Total from operations .....	<u>378,483</u>	<u>312,888</u>
Long-term debt .....	51,806	22,861
Capital stock (including conversion of debentures and notes) .....	26,874	5,201
Property disposals .....	19,667	12,160
Capital lease obligations .....	13,518	17,100
Long-term receivables .....	(8,431)	15,364
	<u>481,917</u>	<u>385,574</u>
<b>Financial Resources Applied</b>		
Plant and equipment .....	364,539	275,116
Dividends .....	88,385	67,021
Long-term debt .....	58,015	11,530
Bottles and cases, net .....	19,153	3,285
Investments in securities .....	(3,774)	21,426
Other .....	19,473	9,459
	<u>545,791</u>	<u>387,837</u>
Decrease in working capital .....	<u>\$ (63,874)</u>	<u>\$ (2,263)</u>
<b>Increase (Decrease) in Working Capital by Element</b>		
Cash .....	\$ (234)	\$ (2,482)
Marketable securities .....	(101,649)	( 336)
Notes and accounts receivable .....	59,251	49,852
Inventories .....	38,734	46,538
Prepaid expenses and other current assets .....	16,247	(276)
Notes payable .....	(8,712)	3,187
Accounts payable .....	(55,136)	(49,454)
United States and foreign income taxes .....	17,784	(9,181)
Other accrued taxes .....	(4,043)	626
Other current liabilities .....	(26,116)	(40,737)
Net (decrease) in working capital .....	<u>(63,874)</u>	<u>(2,263)</u>
<b>Working Capital at Beginning of Year .....</b>	<b>422,554</b>	<b>424,817</b>
<b>Working Capital at End of Year .....</b>	<b><u>\$ 358,680</u></b>	<b><u>\$422,554</u></b>



**Note 1/Summary of significant accounting policies:** Principles of Consolidation. The consolidated financial statements include the accounts of PepsiCo, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant, and Equipment. Land, buildings, and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over the estimated useful lives of the respective assets. Upon the sale or retirement of property, the property accounts and related depreciation reserves are appropriately adjusted and any profit or loss is reflected in income. Maintenance and repairs are charged to expense as incurred.

Valuation of returnable bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage, less related customers' deposits, is charged to cost of sales. Returnable bottles and cases are adjusted to deposit value within one year of acquisition. In foreign operations, returnable bottles and cases and the related customer deposits are translated into U.S. dollars at current rates of exchange.

Goodwill. Goodwill represents the excess of cost over net tangible assets of companies acquired, certain operating rights and trademarks. Approximately \$63 million, acquired prior to November 1, 1970, is not amortized unless there is an impairment of value. The remaining \$95 million is amortized over appropriate periods not exceeding 40 years.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year, generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred income taxes arise from the deferral of investment tax credits, which are amortized over the estimated useful lives of the related assets, and from timing differences between financial and tax reporting, principally depreciation.

Taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of subsidiaries operating outside the U.S. have been reinvested indefinitely in foreign operations. Accordingly, no provision has been made for additional taxes, not material in amount, that might be payable with respect to such earnings in the event of remittance.

Fiscal Year. PepsiCo's fiscal year ends on the last Saturday in December. Fiscal year 1978 ended on December 30, 1978 and comprised fifty-two weeks. Fiscal year 1977 ended on December 31, 1977 and comprised fifty-three weeks.

Net Income Per Share. Net income per share is computed by dividing net income by the average number of common shares and common share equivalents (stock options and warrants) outstanding during each year. The conversion of all convertible debentures and notes would not result in a material dilution.

Audit Committee of the Board of Directors. The Audit Committee of the Board, composed entirely of outside directors, meets on a regular basis with PepsiCo's financial management, internal auditors, and independent accountants to review internal and external audit plans, activities, and recommendations, as well as PepsiCo's financial controls.

**Note 2/Merger with Taco Bell:** In June 1978, a wholly-owned subsidiary of PepsiCo merged with Taco Bell. Under the merger agreement, PepsiCo issued 4,941,413 shares of its capital stock for the outstanding Taco Bell common stock. The transaction was accounted for as a pooling of interests, and PepsiCo's 1977 consolidated financial statements have been restated to include Taco Bell, thereby increasing retained earnings of PepsiCo at December 25, 1976 by \$19,437,000.

Revenues and net income in 1978 of Taco Bell prior to combination (January 1 to June 20) were \$48,975,000 and \$3,200,000, respectively.



**Note 3/Operations in different industries:** Information related to revenues and operating profit for 1978 and 1977 for PepsiCo's business segments is presented on page 30. Additional information is provided below.

**Business Segments** (in millions)

	Identifiable Assets			Depreciation and Amortization Expense		Capital Expenditures <sup>(3)</sup>	
	1978	1977	1976	1978	1977	1978	1977
	\$	\$	\$	\$	\$	\$	\$
Beverage	749.9	566.9	475.9	35.0	28.0	123.8	69.4
Food products	475.9	410.0	358.6	31.8	24.9	75.3	57.4
Food service	423.1	341.7	279.9	24.5	18.5	99.5	95.4
Transportation	279.9	264.5	231.9	17.3	15.0	46.6	38.5
Sporting goods	268.5	253.2	235.1	4.2	3.7	8.7	10.7
Corporate	222.1 <sup>(1)</sup>	294.0 <sup>(1)</sup>	272.2 <sup>(1)</sup>	4.2	3.6	10.6	3.7
Total	2,419.4	2,130.3	1,853.6	117.0	93.7	364.5	275.1
Foreign portion	601.7 <sup>(2)</sup>	535.5 <sup>(2)</sup>	447.9 <sup>(2)</sup>	22.7	17.9	72.3	47.1

(1) Corporate assets are principally marketable securities and administrative office buildings.

(2) PepsiCo's investment in foreign subsidiaries and branches outside the U.S. was \$297.9, \$284.8 and \$271.3 in 1978, 1977 and 1976, respectively.

(3) Includes capital leases.

Foreign exchange losses in 1978 and 1977 were \$11,600,000 and \$7,800,000, respectively, before related tax benefits, of which approximately \$8,900,000 and \$5,500,000 were attributable to the 60,000,000 Swiss franc loan which was repaid in December 1978.

**Note 4/Inventories:** Inventories at December 30, 1978 and December 31, 1977 are summarized as follows:

	1978	1977
	(in thousands)	
Finished goods .....	\$146,399	\$122,693
Raw materials, supplies and in-process .....	196,718	180,334
Equipment held for resale .....	11,494	12,850
	<u>\$354,611</u>	<u>\$315,877</u>

**Note 5/Notes payable and long-term debt:** Notes payable at December 30, 1978 and December 31, 1977 comprised the following:

	1978	1977
	(in thousands)	
Current maturities on long-term debt and capital lease obligations .....	\$13,264	\$10,643
Other notes payable (primarily to foreign banks) .....	44,016	37,925
	<u>\$57,280</u>	<u>\$48,568</u>

At December 30, 1978 and December 31, 1977, long-term debt (less current maturities) consisted of:

	1978	1977
	(in thousands)	
8% notes due 1981 .....	\$ 75,000	\$ 75,000
8¼% notes due 1985 .....	100,000	100,000
6¼% 60,000,000 Swiss franc loan .....	—	30,000
4¾% convertible subordinated debentures (\$2,500,000 due annually from 1988 to 1995, with balance due in 1996) .....	34,202	49,955
Commercial paper .....	38,000	—
Other .....	71,013	60,866
Total long-term debt .....	<u>\$318,215</u>	<u>\$315,821</u>



As of December 29, 1978, PepsiCo entered into a revolving credit agreement, providing for loans up to \$200 million maturing January 2, 1982, which supports the classification of commercial paper as long-term debt.

On March 1, 1979, a PepsiCo subsidiary issued \$100 million in Eurodollar notes with a 9¼% annual coupon rate, issued at par to mature March 1, 1984 and callable at par beginning March 1, 1982. Proceeds are being used to finance domestic capital investments.

The amounts of long-term debt maturing after 1979 are as follows: 1980, \$10,863,000; 1981, \$80,785,000; 1982, \$4,009,000; 1983, \$3,340,000; and subsequently, \$219,218,000.

The debt agreements to which PepsiCo is a party include various restrictions, none of which are currently significant to PepsiCo.

**Note 6/Capital stock and capital in excess of par value:** In May 1977, PepsiCo shareholders approved a three-for-one split of its capital stock and concurrently approved an increase in the number of shares authorized to 100,000,000 and a change in par value to 5¢ per share from 16⅔¢ per share. In May 1978, PepsiCo shareholders approved an additional increase in the number of shares authorized to 135,000,000.

The changes in capital stock and capital in excess of par value are summarized below:

	Capital Stock		Capital in Excess of Par Value
	Shares	Amount	
			(dollars in thousands)
Balance as previously reported—December 25, 1976 .....	86,526,579	\$4,326	\$156,384
Shares issued in pooling of interests with Taco Bell .....	4,893,022	245	2,975
Balance as restated—December 25, 1976 .....	91,419,601	4,571	159,359
Conversion of debentures and notes .....	15,168	1	177
Exercise of stock options and warrants .....	359,381	18	5,005
Balance as restated—December 31, 1977 .....	91,794,150	4,590	164,541
Conversion of debentures and notes .....	751,362	38	15,814
Exercise of stock options .....	529,591	26	10,996
Balance at December 30, 1978 .....	<u>93,075,103</u>	<u>\$4,654</u>	<u>\$191,351</u>
Shares reserved at December 30, 1978 were as follows:			
Stock option plans .....			2,492,858
Convertible subordinated debentures (at \$21.17 per share) .....			1,615,588
Performance Share Plan .....			1,472,127
Warrants previously issued in connection with Pizza Hut debt (at \$3.98 per share) .....			162,750
			<u>5,743,323</u>

At December 30, 1978, options were outstanding on 1,511,697 shares (of which 273,205 were then exercisable), having an aggregate option price of \$35,504,000, including 36,666 shares representing options assumed pursuant to the terms of the Taco Bell merger (see Note 2). The balance of 981,161 shares reserved is available for future grants under PepsiCo's 1969 and 1975 Stock Option Plans. In 1978, options for 529,591 shares were exercised having an aggregate option price of \$10,206,000; options were granted for 610,396 shares having an aggregate option price of \$16,177,000 and options for 278,957 shares were cancelled.

Under the 1972 Performance Share Plan, as amended, the Compensation Committee of the Board of Directors could have awarded up to 1,950,000 performance share units, each unit being limited to the market value of a share of PepsiCo capital stock on date of grant. By its terms, no further awards can be made under the Performance Share Plan after 1978. A participant's award is forfeited unless he remains continuously in the employ of PepsiCo during the award period, except in the case of death, disability, or early retirement at the request of PepsiCo. Units are not earned or paid unless PepsiCo achieves stated cumulative growth rates in net income per share over the four-year period following the award.

Payments may be made in cash, or in capital stock, or combination thereof, as the Committee decides. By January 1979, 477,873 units had been earned by participants under the 1972 and 1974 awards. During 1976 and 1978, additional units were awarded of which 813,890 units were outstanding at December 30, 1978. The cost of the awards made under the Plan is being charged to income (\$5,214,000 in 1978 and \$3,577,000 in 1977) over the applicable four-year period. Participants may elect in advance to defer receipt of payments of awards.



**Note 7/Leases and commitments:** PepsiCo and its subsidiaries have noncancellable commitments for rental of restaurant facilities, office space, plant and warehouse facilities, transportation equipment and other personal property under both capital and operating leases. Certain franchised restaurants are leased and subsequently subleased to franchisees. Lease commitments on capital and operating leases expire at various dates to 2034 and 2015, respectively. Following is an analysis of leased property under capital leases by major classes at December 30, 1978 and December 31, 1977.

	1978	1977
	(in thousands)	
Buildings .....	\$173,504	\$162,944
Machinery and equipment .....	7,260	8,214
	180,764	171,158
Less accumulated amortization .....	52,316	49,549
	<u>\$128,448</u>	<u>\$121,609</u>

Following is a schedule by years of future minimum lease commitments and sublease receivables under all noncancellable leases (in thousands):

	Commitments		Sublease Receivables	
	Capital	Operating	Direct Financing	Operating
1979 .....	\$ 26,212	\$ 26,471	\$ (3,125)	\$ (3,304)
1980 .....	25,118	24,005	(3,126)	(3,299)
1981 .....	24,197	22,162	(3,126)	(3,195)
1982 .....	23,230	21,099	(3,129)	(3,068)
1983 .....	22,391	18,963	(3,133)	(3,048)
Later years .....	228,532	171,524	(26,306)	(32,917)
Total minimum lease commitments (receivables) .....	<u>\$349,680</u>	<u>\$284,224</u>	<u>\$(41,945)</u>	<u>\$(48,831)</u>

The present value of minimum lease payments for capital leases amounts to \$169,059,000 after deducting \$6,444,000 for estimated executory costs (taxes, maintenance and insurance) and \$174,177,000 representing imputed interest. The present value of minimum sublease receivables amounts to \$20,792,000 after deducting \$21,153,000 of unearned income. Total rental expense for all operating leases for years ended December 30, 1978 and December 31, 1977 was \$29,108,000 and \$27,449,000, respectively. Total rental income from all operating subleases for years ended December 30, 1978 and December 31, 1977 was \$5,255,000 and \$4,183,000, respectively.

At December 30, 1978, PepsiCo and its subsidiaries were contingently liable under guarantees aggregating \$55,000,000.

**Note 8/Income taxes:** U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 48% since unremitted earnings of foreign operations are subject to a lower aggregate tax rate. This is principally because a substantial portion of the earnings of a U.S. subsidiary operating in Puerto Rico (which has been invested in marketable securities) is not taxable.

**Note 9/Pensions:** PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union) and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund current cost and interest, as well as amortization of prior service cost over 30 years. The excess of vested benefits over fund assets of four of the plans was approximately \$3,500,000. Pension expense for all plans was approximately \$31,800,000 in 1978 and \$24,300,000 in 1977.

**Note 10/Litigation:** In 1971, the Federal Trade Commission (the "FTC") issued complaints against PepsiCo and its principal competitors, alleging that exclusive territorial restrictions imposed upon soft drink bottlers in the United States unreasonably restrain trade. The cases against the Coca-Cola Company and PepsiCo proceeded to trial and, in 1975, the FTC Administrative Law Judge ruled that exclusive territories are legally permissible. In April 1978, the FTC reversed that decision and ruled that territorial restrictions on soft drinks in non-refillable packages are illegal. PepsiCo has appealed to the United States Court of Appeals and the FTC order is stayed during the appeal of



the case. Management and its counsel cannot evaluate the future financial or business effects, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business should the FTC's order be modified or affirmed by the courts.

PepsiCo and its subsidiaries are involved in various litigated matters but believe that none will have a material effect on the consolidated financial statements.

PepsiCo intends a vigorous defense of these matters.

**Note 11/Quarterly financial data (unaudited):** Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1978 and 1977 are as follows:

	1978 Quarters Ended				Total
	March 25 (12 Weeks)	June 17 (12 Weeks)	Sept. 9 (12 Weeks)	Dec. 30 (16 Weeks)	
Net sales and other operating revenues . . . .	\$833,787	\$1,023,041	\$1,098,128	\$1,345,050	\$4,300,006
Gross profit . . . . .	415,403	499,372	532,271	628,461	2,075,507
Net income . . . . .	37,044	59,801	69,120	59,804	225,769
Net income per share . . . . .	.40	.65	.74	.64	2.43

	1977 Quarters Ended				Total
	March 19 (12 Weeks)	June 11 (12 Weeks)	Sept. 3 (12 Weeks)	Dec. 31 (17 Weeks)	
Net sales and other operating revenues . . . .	\$690,738	\$856,735	\$938,555	\$1,163,263	\$3,649,291
Gross profit . . . . .	336,497	416,187	457,867	556,998	1,767,549
Net income . . . . .	32,346	51,544	60,193	52,658	196,741
Net income per share . . . . .	.35	.56	.66	.57	2.14

As a result of the merger of PepsiCo and Taco Bell (see Note 2) revenues, net income, and net income per share previously reported were adjusted as follows (in thousands of dollars except for per share amounts):

	Adjustments to Quarters Ended in				1977
	March	June	Sept.	Dec.	Total
Net sales and other operating revenues					
1978 . . . . .	\$15,681	\$33,294	\$ —	\$ —	\$ —
1977 . . . . .	12,944	24,590	28,928	37,115	\$103,577
Net income					
1978 . . . . .	708	2,492	—	—	—
1977 . . . . .	956	2,283	3,007	3,156	9,402
Net income per share					
1978 . . . . .	(.02)	—	—	—	—
1977 . . . . .	(.01)	—	—	—	(.01)

**Note 12/Replacement cost information (unaudited):** Pursuant to the requirements of the Securities and Exchange Commission, PepsiCo has made certain estimates of the replacement cost of its entire productive capacity and inventories. The computations were based on the hypothetical assumption that PepsiCo would replace buildings and machinery and equipment (including those represented by capital leases) at the end of the year using the latest proven technology, without regard to the availability or cost of funds for such replacement. No attempt was made to estimate the cost savings which might be expected from increased operating efficiencies of new facilities. Because the estimating procedures require the making of numerous subjective decisions, PepsiCo cannot warrant the accuracy of the estimates contained herein.

The computations indicate that the estimated replacement cost of buildings and machinery and equipment as of December 30, 1978 and December 31, 1977 would have been approximately 48% and 53%, respectively, above original cost when acquired. The estimated replacement cost does not represent amounts for which such facilities could be sold, nor should compliance with this requirement be interpreted to indicate that PepsiCo actually plans to



sell or replace the assets at this time, or in the manner or at the cost assumed in this estimate. Depreciation expense charged to cost of sales and marketing, administrative and other expenses totaled \$113 million for 1978 and \$90 million for 1977 in the historical cost statements. Depreciation expense on assets at replacement cost would have approximated \$185 million and \$155 million for 1978 and 1977, respectively. The computed estimated replacement cost of inventory was not materially greater than the reported historical amounts (see supplementary information included in Form 10-K for replacement cost details).

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**Report of Certified Public Accountants**

Board of Directors and Shareholders  
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 30, 1978 and December 31, 1977, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 30, 1978 and December 31, 1977, and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

*Arthur Young & Company*

277 Park Avenue  
New York, New York  
February 20, 1979



**Ten-Year Comparative Summary**

PepsiCo, Inc. and Subsidiaries

	1978	1977
<b>Summary of Operations</b>		
(in thousands except per common share)		
Net sales and other operating revenues .....	<b>\$4,300,006</b>	\$3,649,291
Cost of sales and other operating revenues .....	<b>2,224,499</b>	1,881,742
Marketing, administrative and other expenses .....	<b>1,645,142</b>	1,392,195
Interest expense .....	<b>51,996</b>	45,983
Interest income .....	<b>(21,748)</b>	(25,643)
	<b>3,899,889</b>	3,294,277
	<b>400,117</b>	355,014
U.S. and foreign income taxes .....	<b>174,348</b>	158,273
	<b>225,769</b>	196,741
Equity in net income of PepsiCo Leasing Corporation .....	—	—
Net income .....	<b>225,769</b>	196,741
Per common share .....	<b>\$ 2.43</b>	\$ 2.14
Cash dividends declared .....	<b>88,385</b>	67,021
Per common share .....	<b>\$ .975</b>	\$ .825
Additions to property, plant and equipment <sup>**</sup> .....	<b>364,539</b>	275,116
Depreciation and amortization <sup>**</sup> .....	<b>117,019</b>	93,723
Average common shares outstanding .....	<b>92,883</b>	92,046
<b>Year-End Position</b>		
(in thousands except per common share)		
Working capital .....	<b>358,680</b>	422,554
Property, plant and equipment—net .....	<b>1,137,744</b>	885,328
Total assets .....	<b>2,419,369</b>	2,130,294
Long-term debt and capital lease obligations .....	<b>479,134</b>	467,808
Shareholders' equity .....	<b>1,167,659</b>	1,003,401
Per common share .....	<b>\$12.55</b>	\$10.93
Common shares outstanding .....	<b>93,075</b>	91,794
<b>Statistics and Ratios</b>		
Current assets to current liabilities .....	<b>1.6 to 1</b>	1.7 to 1
Return on average shareholders' equity .....	<b>20.8%</b>	21.0%
Return on revenues .....	<b>5.3%</b>	5.4%
Long-term debt to total capital <sup>**</sup> .....	<b>28.1%</b>	30.8%
Total debt to total capital <sup>**</sup> .....	<b>31.5%</b>	34.0%
Employees .....	<b>95,000</b>	83,000
Shareholders .....	<b>55,000</b>	52,000

This summary has been retroactively adjusted for Taco Bell acquired in a transaction accounted for as a pooling of interests.

<sup>\*</sup> Before extraordinary items.

<sup>\*\*</sup> Includes capital leases.



1976	1975	1974	1973	1972	1971	1970	1969
\$3,109,366	\$2,709,373	\$2,408,808	\$1,938,851	\$1,578,802	\$1,381,883	\$1,225,015	\$1,039,930
1,639,937	1,487,922	1,361,701	1,055,334	840,099	746,436	670,470	558,839
1,153,400	970,049	835,959	699,864	583,310	498,844	437,941	378,295
45,000	52,096	55,998	36,053	17,963	18,630	18,834	10,450
(26,034)	(21,292)	(18,313)	(13,701)	(9,066)	(8,075)	(5,851)	(6,480)
2,812,303	2,488,775	2,235,345	1,777,550	1,432,306	1,255,835	1,121,394	941,104
297,063	220,598	173,463	161,301	146,496	126,048	103,621	98,826
135,328	98,964	75,536	74,494	67,852	57,096	44,448	45,778
161,735	121,634	97,927	86,807	78,644	68,952	59,173	53,048
—	1,852	2,345	2,699	2,638	990	418	2,593
161,735	123,486	100,272	89,506	81,282	69,942	59,591	55,641*
\$ 1.79	\$ 1.38	\$ 1.13	\$ 1.01	\$ .93	\$ .82	\$ .72	\$ .69*
47,764	37,085	31,755	27,783	24,108	23,592	22,144	22,257
\$ .633	\$ .500	\$ .433	\$ .380	\$ .333	\$ .333	\$ .333	\$ .327
191,767	139,838	194,614	182,567	87,262	65,897	77,942	86,399
79,057	72,739	64,832	54,031	41,334	36,128	30,279	28,186
90,600	89,288	89,008	88,798	87,306	85,427	82,429	80,197
424,817	369,772	305,108	172,426	169,660	150,613	95,212	54,614
713,191	614,803	590,749	495,553	374,368	335,721	302,455	251,172
1,853,599	1,660,577	1,603,892	1,358,572	1,064,550	933,778	844,768	623,518
433,887	463,857	482,491	345,661	257,305	226,994	208,566	118,059
868,480	719,532	630,367	560,004	497,465	422,934	357,076	311,269
\$ 9.50	\$ 8.09	\$ 7.12	\$ 6.34	\$ 5.65	\$ 4.91	\$ 4.32	\$ 3.83
91,420	88,894	88,563	88,396	88,003	86,119	82,745	81,167
1.9 to 1	1.9 to 1	1.7 to 1	1.4 to 1	1.7 to 1	1.7 to 1	1.4 to 1	1.3 to 1
20.4%	18.3%	16.8%	16.9%	17.7%	17.9%	17.8%	17.9%
5.2%	4.6%	4.2%	4.6%	5.1%	5.1%	4.9%	5.4%
32.0%	37.0%	38.2%	33.0%	31.5%	31.6%	31.4%	24.3%
35.9%	42.6%	50.1%	46.5%	39.0%	41.1%	46.3%	35.9%
77,000	71,000	68,000	63,000	51,000	46,000	42,000	34,000
48,000	49,000	51,000	52,000	53,000	53,000	55,000	57,000



**PepsiCo, Inc. Directors***Victor A. Bonomo*Executive Vice President,  
Operations, PepsiCo, Inc.*Frank L. Carney*Chairman of the Board and  
President, Pizza Hut, Inc.  
and Vice President, Food  
Service, PepsiCo, Inc.*William T. Coleman, Jr.*

Partner, O'Melveny &amp; Myers

*Clifton C. Garvin, Jr.*Chairman of the Board and  
Chief Executive Officer,  
Exxon Corporation*Donald M. Kendall*Chairman of the Board and  
Chief Executive Officer,  
PepsiCo, Inc.*Herman W. Lay*Chairman of the Executive  
Committee, PepsiCo, Inc.*T. Vincent Learson*Member of the Board of  
Directors and Retired  
Chairman, International  
Business Machines  
Corporation*Andrall E. Pearson*President and Chief  
Operating Officer,  
PepsiCo, Inc.*Herman A. Schaefer*Executive Vice President,  
Finance and Administration,  
PepsiCo, Inc.*Robert H. Stewart III*Chairman of the Board,  
First International  
Bancshares, Inc.*Peter K. Warren*Chairman, PepsiCo  
International and Vice  
President, International  
Beverages, PepsiCo, Inc.*Dr. Arnold R. Weber*Provost, Carnegie-Mellon  
University*Caspar W. Weinberger*Member of the Board of  
Directors and Vice  
President, Bechtel Power  
Corporation, Bechtel  
Incorporated and Bechtel  
Corporation**Committees***Audit Committee:*Messrs. Learson  
(chairman), Garvin, Stewart  
and Weber*Compensation Committee:*Messrs. Stewart  
(chairman), Coleman,  
Garvin, Learson and  
Weinberger*Executive Committee:*Messrs. Lay (chairman),  
Bonomo, Garvin, Kendall,  
Learson, Pearson,  
Schaefer, Stewart and  
Warren**Officers***Donald M. Kendall*Chairman of the Board and  
Chief Executive Officer*Herman W. Lay*Chairman of the Executive  
Committee*Andrall E. Pearson*President and Chief  
Operating Officer*Victor A. Bonomo*Executive Vice President,  
Operations*Herman A. Schaefer*Executive Vice President,  
Finance and Administration*Darrell Agee*

Vice President, U.S. Bottling

*Richard I. Ahern*Vice President, International  
Bottling*Richard J. Caley*Vice President, Sporting  
Goods*D. Wayne Calloway*Vice President, Snack  
Foods (U.S.)*F. Taylor Carlin*Vice President and  
Controller*Frank L. Carney*Vice President, Food  
Service*Cartha D. DeLoach*Vice President, Corporate  
Affairs*Robert G. Dettmer*Vice President, Financial  
Management and Planning*Gerald J. Fischer*Vice President, Corporate  
Development*William J. Gill*Vice President, Research  
and Technical Services*Edward V. Lahey, Jr.*Vice President, General  
Counsel and Secretary*Harvey Luppescu*Vice President, Tax  
Administration*Robert H. Masson*Vice President and  
Treasurer*Frank L. Peck*Vice President,  
Concentrate Operations*Harvey C. Russell*Vice President, Community  
Affairs*John Sculley*Vice President, Beverage  
Operations (U.S.)*Edward F. Walsh*

Vice President, Personnel

*Peter K. Warren*Vice President, International  
Beverages*Vincent M. Burke*

Assistant Controller

*Thomas J. Galligan III*

Assistant Controller

*Douglas E. Moran*

Assistant Controller

*Wendell W. Gunn*

Assistant Treasurer

*Peter D. Houchin*

Assistant Treasurer

*Richard Leberman*

Assistant Treasurer

*Walter S. Rosenstein*

Assistant Secretary



**Executive Offices**

*PepsiCo, Inc.*  
Purchase, New York 10577  
(914) 253-2000

**Principal Divisions and Subsidiaries**

*Pepsi-Cola Company*  
Purchase, New York 10577  
John Sculley, President

*Frito-Lay, Inc.*  
Frito-Lay Tower,  
Exchange Park  
Dallas, Texas 75235  
D. Wayne Calloway,  
President

*PepsiCo International*  
Purchase, New York 10577  
Peter K. Warren, Chairman

*Pizza Hut, Inc.*  
9111 East Douglas  
Wichita, Kansas 67207  
Frank L. Carney, Chairman

*North American Van Lines, Inc.*  
5001 U.S. 30 West  
Fort Wayne, Indiana 46818  
Kenneth Maxfield,  
President

*Lee Way Motor Freight, Inc.*  
3000 West Reno  
Oklahoma City,  
Oklahoma 73108  
Robert Carleton, President

*Wilson Sporting Goods Co.*  
2233 West Street  
River Grove, Illinois 60171  
Richard J. Caley, President

*Taco Bell*  
17381 Red Hill Avenue  
Irvine, California 92714  
Robert L. McKay, President

*PepsiCo Foods International*  
4141 Blue Lake Circle,  
Suite 260  
Dallas, Texas 75234  
John J. Kickham, President

*Pepsi-Cola Bottling Group*  
Purchase, New York 10577  
Darrell Agee, President

*United Beverages International*  
Purchase, New York 10577  
Richard I. Ahern, President

*PepsiCo Wines and Spirits International*  
Purchase, New York 10577  
Norman Heller, President

*PepsiCo Building Systems*  
3031 La Jolla Street  
Anaheim, California 92806  
Thomas Orr, President

**Capital Stock**

Shares of PepsiCo, Inc. Capital Stock are traded on the New York and Midwest Stock Exchanges.

**Form 10-K**

Copies of PepsiCo's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577

**Auditors**

*Arthur Young & Company*  
277 Park Avenue  
New York, New York 10017

**Transfer Agents and Registrars**

*Morgan Guaranty Trust Company of New York*  
30 West Broadway  
New York, New York 10015  
(212) 483-2323

*First National Bank in Dallas*  
P.O. Box 6031, Dallas,  
Texas 75283  
(214) 744-8464

**Dividend Reinvestment Agent**

*Citibank, N.A.*  
111 Wall Street  
New York, New York 10043  
(212) 558-7409

**Annual Meeting**

The Annual Meeting of shareholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 2, 1979. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation.





LADY ADVANTAGE

TACO BELL

PEPSI  
LIGHT

SUGAR-FREE

COCAINE AND LEMON ADDED  
LOW CALORIE CARBONATED BEVERAGE

MIRINDA

285 ML

ПЕПСИ-КОЛА  
ТОРГОВАЯ МАРКА

Lee Way

Lee Way